Tatra banka

Annual Report 2011

Slovakia

Member of Raiffeisen Bank International

TATRA BANKA

Content

About

Mission, Vision, Values

Mission of Tatra banka

We're shifting the boundaries of the banking business.

- We bring exceptional personal and financial comfort to clients that care who manages their money and how
- Each one of us creates an inspiring environment, where we like to work, realise our own personal objectives,
- and try to be better
- We have long been achieving above-average advancement of the firm's values

Vision of Tatra banka

We are perceived as the strongest and most attractive bank, with services that are noticeably of the highest quality.

Tatra banka is a prestigious employer, the best place to work, and a place we enjoy being.

Values of Tatra banka

Demanding Approach

We do things the best we possibly can, not satisfied with the average.

Fair Play

We act fairly and respectfully to everyone, and we insist on transparency in everything we do.

Enthusiasm

We try to encourage people, and to exceed their expectations.

Creativity

We bring new solutions, and support bold and innovative thinking.

Responsibility

We care about the success of our clients, employees, and the society we live in. We feel responsible for everything we do.

Team work

We realise the power of the team of which we are part. We willingly cooperate and respect each other.

Statement by the Chairman of the Board of Directors

Dear Shareholders, Clients and Partners,

I would like to keep with tradition and briefly summarise the past year, while outlining the new challenges that stand before us. Concerning the bank results, I can proudly say that the past year was a successful one. Not only did the bank manage to hold onto the number three position by total assets among banks in Slovakia, it even increased its market share in various other aspects. I am particularly pleased by the fact that we proved convincingly once again that we are the most innovative bank on the market, aiming to provide our clients with state-of-the-art technology together with a high standard of services and convenience. Needless to say, we are determined to continue this way.

We can see proof of this in how already at the turn of the year we prepared the Reader mobile phone application for clients, thanks to which they can work with the Reader tool directly from their mobile phones without needing a Card&Reader device. In February 2012 we prepared a version also for telephones with the Android operating system and will soon prepare a version also for iPhone.

In February we introduced another new feature to clients and non-clients alike, with the launch of the first branch on Facebook – the so-called virtual branch of Tatra banka. This year we also plan a revolutionary innovation that will allow our clients to pay comfortably using their iPhone instead of a traditional payment card.

Let's return to our innovations from last year. By this we are not speaking only about innovations in technologies, where we came up with the revolutionary new security option in the shape of a digital signature, or the launch of the new Internet banking. It refers also to how we boasted innovations in the area of investments, giving retail clients the chance to invest in gold, for instance, which proved very popular at a time of market fluctuations. We also applied some significant innovations to loan products for the retail segment. As an example, I can mention the mortgage with accelerated repayment. We also made innovations in the area of client services, both retail and corporate, and with payment cards, where we issued yet another limited series of credit cards, this time depicting renowned Slovak poet and writer, Ľubomír Feldek.

As I already mentioned, we faced up to the competition with pride, which is confirmed also by how the consolidated after-tax profit of the Tatra banka Group registered a year-on-year growth of 47.7 per cent, which in absolute terms is a growth of EUR 44.9 million to EUR 139,084 million. This positive result can be put down chiefly to a 65.7 per cent drop in the need to allocate provisions on client loans, thanks to the prudent risk policy employed by the bank and also effective cost management that grew significantly less than inflation. The balance sheet total of the Tatra banka Group reached the level of EUR 9.2 billion, which represents a growth of 4.6 per cent over the previous year. The loan portfolio volume enjoyed a growth of 10.2 per cent, which is almost double the rate of growth of 2010. Client deposits increased by 1.9 per cent year-on-year, a bit more than in the previous year.

On the assets side of the balance sheet, loans granted to clients increased the most, rising by 10.2 per cent to a total of EUR 6.4 billion. In terms of loan structure, a growth was witnessed foremost in project financing, while in retail loans the best results were generated in housing loans, as well as non-purpose consumer loans and home equity loans. The proportion of non-performing loans in the overall loan portfolio decreased to 5.0 per cent at the end of 2011, which attests to the healthy loan portfolio of the Tatra banka Group.

On the side of liabilities, the strongest growth was in client deposits, which came to EUR 6.9 billion upon a 1.9 per cent growth. In terms of client deposits, particular growth was seen in term deposits, whereby some of the funds put into term deposits were transferred from current accounts due to more attractive interest rates. In connection with the rising interest in term deposits, the share of personal deposits in total client deposits increased as well. The ratio of loans to deposits on a consolidated base came to 91.7 per cent, which is witness to the strong liquid position of the Tatra banka Group. The indicator of capital adequacy on a consolidated base as of 31 December 2011 came to 13.2 per cent, by which Tatra banka Group clearly surpassed the level of capital adequacy prescribed by the regulator.

We successfully attained these results not only thanks to a revival in the market and a good sales strategy, but equally as a result of the fact that we are traditionally a conservative and prudent bank, which reflects also in a fairly low level of provisioning.

Many people are asking what kind of year we can expect in 2012. Various indicators denote that it will not be easy. However, it has to be stressed that it is highly unlikely that worst case scenarios will materialize. The slowdown in the real economy is bottoming out in Western and Eastern Europe. Financial markets and the banking sectors have also stabilised. Nevertheless, it has to be stressed that this has been avoided because of actions of the European Central Bank (ECB) and not because of actions in the political or regulatory sphere. The Eastern European banking sectors have benefitted from the ongoing commitment of large international banks like Raiffeisen Bank International. However, we should not think that the years to come will be easy. Rebalancing in the real economies and banking sectors in Europe is looming. Now politics have to seize the window of opportunity that was opened up by the ECB. How we will cope with this situation in Slovakia will not only depend on us and the banking sector, but will be a task also for the society and for the government, recently elected in March. In the context of the debt crisis in several European countries, the government will have to adopt a fiscal policy that generates as little debt as possible.

The development in the eurozone and the expected global crisis will, naturally, affect the development of the Slovak economy, as well. Forecasts of analysts are not exactly favourable in this respect and they project anything from minimum growth to recession. From the bank's perspective, it is therefore important to choose the right and responsible strategy to meet its goals to the satisfaction of clients and shareholders alike. I see it as crucial that the Slovak banking sector is in healthy condition and even in the face of the crisis, which hit some Western European and American banks, no bank in Slovakia had to be bailed out. It is important to point out, though, that the state, which should be interested in a healthy banking sector, as it is like the main artery of the Slovak economy, has complicated the situation for banks in the past year with the introduction of a special bank levy of 0.4 per cent of selected liabilities, which refers foremost to deposits of legal entities. At first sight it might appear to the layman that this is a small figure, and many people still have the false impression that the levy is calculated from the bank's profit. It is important to reiterate, though, that this is not true and that some banks pay a higher amount for this levy than their profit would be, meaning they would be generating a loss. This then naturally reflects in the possibilities of the banks to finance and give credit to companies and the Slovak economy.

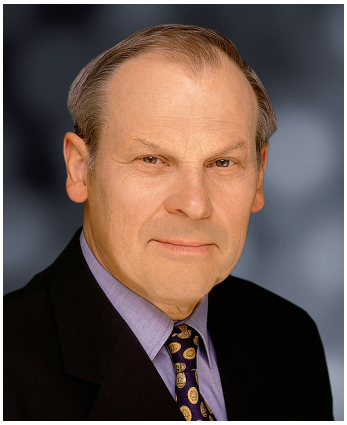
I would like to express my hope that certain political parties will give up on their intention to increase this levy again to as much as 0.7 per cent or 0.75 per cent, as this would be clearly detrimental for the Slovak banking sector and for the whole Slovak economy, and would lead to a rise in unemployment. As the President of the Slovak Banking Association, I am not against discussion on how the system linked to the bank levy should work, but in any case, the current system was established in a non-transparent way and without any expert consultations with the banking sector. It is very simple, but also short-sighted and irresponsible, to look for adversaries in society and target them for gaining popularity and financial resources. I would also like here to appeal to the future government coalition and MPs to consider thoroughly each step that they take, not just from the perspective of short-term effects, but foremost in terms of the overall impacts on the economy.

Last but not least, I would also like to draw attention to the socially responsible activities that Tatra banka carried out by way of its foundation, through which it traditionally support art and education. In the past year, we have supported up to 180 projects in these two areas with a total of almost EUR 700,000. We are proud to be the general sponsor of the Slovak National Theatre, but we also support theatres in eleven regions of our country. For 16 years now we have been awarding the Nadacia Tatra banky Prizes to leading Slovak artists who by their work have contributed to the development of Slovak art. As part of educational programmes, we support the education of students, who can receive grants from us to study at prestigious universities abroad. As is now tradition, we invited distinguished personalities to Slovakia from the international scientific community, with no absence once again of a Nobel Prize laureate for economics. This time Professor Oliver Williamson from the University of California presented his thoughts to the Slovak auditorium. As part of the programme Personalities in person, we welcomed also Pulitzer Prize winner Professor Joshua Friedman from Columbia University, as well as other professors and scientific personalities from the United State of American and Europe.

I have tried at least briefly to acquaint you with our activities and results, but you can find out more information about individual areas of the bank's operations in this Annual Report. Allow me finally to thank all our clients for their continued trust, our shareholders for their support, our partners for their co-operation and my co-workers for their hard work and effort, while wishing you all a highly successful 2012.

Ing. Igor Vida
Chairman of the Board of Directors and General Director of Tatra banka

Statement by the Supervisory Board President



Ladies and Gentlemen,

2011 was once again a fairly eventful year. The developments in Europe, and particularly in the peripheral states of the eurozone, left their mark on the group headed by Raiffeisen Bank International (RBI), the parent company of Tatra banka. While our exposure to these states was traditionally low and we were not directly affected, we too were unable to escape the effects of the market environment following the sovereign debt crisis.

RBI and banks in general are facing a lot of new rules. From our point of view, however, they are introduced at an unfortunate time and in too much haste. The regulations published by the European Banking Authority (EBA) at the end of October which call for a core tier 1 capital ratio of 9 per cent by the end of June 2012 put pressure on many banks in Europe. However, we – to be more exact, the RZB Group – are well-equipped to handle this. We have put together a comprehensive bundle of measures, consisting of numerous individual measures. We are also in the fortunate position of making profits which are strengthening our equity. As a result, we can meet the new requirements from our own resources.

By meeting the EBA ratio, RBI is also reaching the Basel III ratio of 7 per cent, which the Austrian regulators have set as mandatory earlier than previously planned, namely from the start of 2013. Moreover, the Austrian regulators implemented a ratio system for banks operating in Central and Eastern Europe to bring funding from other sources than the shareholder and loans into balance. We do not regard the guideline that only € 110 should be lent for every € 100 of deposits (including certain other forms of funding) as a major restriction. As growth in lending is tied to economic growth, it is likely to be moderate in the next few years. Looking at growth rates, we have to distinguish between markets. While in the eurozone we are facing a real systemic and political crisis, in Central and Eastern Europe the economic uptrend is largely continuing. This region is and will continue to be the growth driver for Europe. Even if economic growth in the CEE region slows from 3.7 per cent in 2011 to 2.6 per cent in 2012, this is still higher than in the eurozone. This is not a bad outlook for us.

In this difficult environment, the RBI Group generated a profit before tax of nearly € 1.4 billion, which is a solid result we can rightly be proud of. One thing that made this possible is that the markets in Central and Eastern Europe continued to show comparatively high economic growth, which also resulted in a significant improvement in our risk situation. Our result confirms our sustainable business model, which will continue to keep us very competitive!

As far as Tatra banka is concerned, I am glad to say that it confirmed its position as third-largest bank on the Slovak market also in the last year. Tatra banka Group closed 2011 with a profit after tax almost 48 per cent higher than the year before, thereby continuing its excellent track-record from previous years. The increase was accompanied by market share gains in loans and deposits, as well as in assets managed by Tatra Asset Management. The outstanding financial result of the Tatra banka Group is also due to its efficiency in cost management. In 2011, general administrative expenses increased by only 1.1 per cent, which was well below the country‘s inflation level.

As far as our customers are concerned, I am pleased to note that the bank remained true to its image as innovation provider. Tatra banka‘s aim has always been to simplify branch processes for its clients, make available the use of our products and significantly improve the effectiveness of handling client funds. I believe that with every such step we are able to increase the level of client satisfaction and enforce the position of the bank, which truly pushes the limits of banking forwards.

From the perspective of the Supervisory Board, I appreciate the ambition of our employees and the management behind all these decisions. I thank every staff member for their endeavour and for the effort they put into their work every day – our excellent results certainly prove their outstanding devotion. I also thank our clients and shareholders for their loyalty and support and assure them that we will continue to honour it.

Dkfm. Rainer Franz
Chairman of the Supervisory Board

Statement by Miroslav Uličný

Corporate banking underwent many changes last year

For small and medium-sized companies, the previous year was a far more successful one, in line with overall economic development. This favourable development gave Tatra banka the chance of growth in the loan portfolio while reducing the current volume of risk loans.

Although companies renewed their investment into new technologies, it was essentially to a smaller extent than in the pre-crisis period. At the same time, they remained prudent also in the use of operating finances. Many banks tried to expand their loan portfolios, especially based on lower price offers. Despite this, we still managed to confirm the bank's leading position in the SME segment. Thanks to the high quality of client service and products, we retained our number one spot on the market in the field of loans.

This is another reason why we are confident that investing into technology and software for front office workers at Corporate Centres, as well as raising their credit-granting and decision-making powers, all helped boost our high level of competitiveness on the saturated Slovak market. The new system of Customer relationship management, which is the most complex system of its type on our banking market, lets us understand better the needs of clients, used products, commercial opportunities, or the option of crosseling.

The year 2011 was a year of big changes for Corporate centres. I am very glad that we managed to implement these changes successfully and in a short space of time, made possible thanks to the active participation of all workers involved in this demanding process.

The correctness of these changes and the investments made is confirmed not just by the excellent financial results, but also by the increased level of customer satisfaction, as was shown by the results of a client satisfaction survey carried out at the end of 2011.

In 2012 we wish to continue in the innovation of products. Our focus is to intensify the level of contact with clients. We will offer the kind of products that the bank has extensive experience with and in which it has a leading position on the market, such as export financing, financing of receivables, and credit for small and medium-sized energy projects. We will gradually build up a range of auxiliary services and an analytical financial service with the aim of increasing further the satisfaction of our clients.

Miroslav Uličný
Vice-Chairman of the Board of Directors and Deputy General Director of Tatra banka,
Head Office III

Statement by Marcel Kaščák

The year 2011 saw economic development stabilise

The year 2011 could be characterised by stabilisation of economic development and revived growth, which reflected also in a significant rise in the demand for loans, as well as in a growth in deposits.

Market optimism was negatively influenced by increasing attention being given to the debt crisis in the eurozone. Paradoxically, this fact affected the economic activities of companies only to a minimum extent, with the engine of the Slovak economy – the automotive sector, generating record results. This then reflected in much better risk exposure in the loan portfolio and a drop in the number of non-performing loans, with the figure well below the market average. The measures adopted by the European Union in respect of the capital adequacy of banks will see costs for liquidity increase in 2012 with a growth in interest margins, which manifested already at the end of 2011.

Marcel Kaščák
Member of the Board of Directors, Head Office VII

Statement by Michal Liday

In more than 20 years of existence, Tatra banka has raised the benchmark also in terms of daily client contact with the bank thanks to its innovations

The year 2011 saw a revival in the market to almost "pre-crisis" levels, which was reaffirmed also by the interest in Tatra banka products and services shown by individual and business clients and non-clients alike. I am proud to say that in its twentieth year of life Tatra banka was, and continues to be, a dominant innovator on the Slovak banking market. However, I do not view our success over this period merely from the perspective of innovation, comprising the creative solutions and hard work of bank specialists. It is the actual experience of our clients that proves that the efforts made have produced their own "healthy" and "succulent" fruits, by which we once more pushed the threshold of banking further.

The year 2011 was marked again by the spirit of overall stabilisation and internal technological development of our distribution network, which was most commonly perceived through the branch and ATM networks. Following the successful introduction of document scanners at our branches in 2010, in February 2011 we started providing clients with even greater protection and security when handling their funds in contact with branches using the digitised signature. Increasing the use of alternative forms of communication with the bank literally became a challenge for us in 2011. In the second half of the year we presented the broad internet community with a non-stop online chat option to DIALOG operators using the new service Tatra Chat. At the end of the year, internet users also started to notice the attractiveness, elegance and clarity of our new 3rd generation Internet banking. After we managed in 2010 to give iPhone users more comfort in controlling their accounts using a simple application, at the end of 2011 owners of Android phones also got the chance to try out a comparable application for their devices.

We developed our innovative activities also in the area of products and services. From March 2011 anyone interested in getting a loan could check out the terms for a mortgage, household or other loan, using the simple Loan assistant on our website. From September some clients already with a mortgage could accelerate repayments according to their current financial situation and for clients interested in consumer loans we waived the first loan repayment for them as part of the special pre-Christmas campaign, letting them give a few extra unplanned Christmas surprises to their loved ones.

Clients with a permanent interest in capitalising on their savings also appreciated new features and products. In the course of 2011 we complemented the palette of deposit products for clients to include Tatra banka bond and for those interested in mutual funds, in October 2011 we started offering the new Deposit fund without fees and stable yield and high liquidity, while for clients interested in pension savings we offer the time-limited Special deposit as part of the supplementary pension savings of DDS Tatra banky.

As we have long been the most successful bank in terms of the issue and administration of payment cards, our innovations focused also on this area. In addition to the new Valentine cover for a gift card, the year also saw the issue of yet another original limited edition credit card, this time devoted to leading Slovak writer Ľubomír Feldek. Prudent clients who noticed and tried out our innovated remuneration programme could get it free of charge or at a 50 per cent discount.

Experts predict a difficult period in the years to come, but I am convinced that just as Tatra banka has managed to overcome less favourable periods in the 20 years of its existence thanks to its successes and dynamic development, in the coming years we will maintain and strengthen our position as leader in innovations on the Slovak banking market. The foundation stone of our success, however, continues to be the satisfaction and trust of our clients, which remains our number one goal.

Michal Liday
Member of the Board of Managing Directors, Head Office IV

Statement by Natália Major

Lean has become integrated to everything we do

At Head Office VIII, activities can be split into divisions with executive and supporting functions. At the beginning of 2011, all divisions were devoted to the concentrated activity to define our strategy, which should help achieve also the strategy of the bank as a whole.

Divisions with executive functions – processing centres – here we focused on completing the migration of retail back office activities to the Processing Centre in Prešov. Transferred activities were put under the microscope during the year with the aim of increasing productivity and effectiveness. In the first quarter of 2011 we completed the move of foreign payment transactions and in the third quarter the processing of mortgages, meaning we had completed the whole original scope of migration activities from Bratislava to Prešov.

At the Bratislava processing centres we worked intensively on centralising activities from commercial units to the processing unit in the field of corporate loans, specifically the preparation of contractual documentation and the monitoring of receivables.

Of the various automation projects, we feel the most important was the new version of electronic banking Multicash for large corporate accounts in a version where payments are processed in real time. Another key project for the whole RBI group was the successful implementation of an application that directs the completion and forwarding or receipt of all foreign payments to a central point for all banks of the RBI group, CRISP in Romania. Regarding the processing of distraint orders, at the end of 2011 we finally made a huge step towards automating electronic communication between the bank and court bailiffs.

Thanks to the programme SEPA (Single European Payment Area), in 2011 we became completely compatible for receiving SDD (Sepa Direct Debit) requests and we started work on detailed analysis of SCT – Sepa Credit Transfer. The completion of these projects will provide a benefit to our clients in the shape of uniform rules and forms for making payment transactions within Europe.

The activity of divisions with supporting functions did not lag behind that of the executive functions divisions. Thanks also to year-round concentrated activity focusing on cost management at the Central procurement division, we managed to control our investment and non-personnel costs responsibly. The efforts to optimise and manage costs culminated in the last quarter of 2011, when we set up a Costs management unit under Head Office VIII. Our endeavour to control costs in 2011 was capped by success in the form of a CIR on the level of 52.12 per cent.

Regarding facility management and services, in 2011 we prepared and carried out several restructuring initiatives, which lent support to the efforts to manage costs responsibly in respect of buildings, vehicle fleet and internal services, without a significant impact on the internal or external client.

To the end of 2011 we expanded to include new units like the Security Division and the Project Office.

From the beginning to the very end of the year, we exerted a lot of energy on introducing a new culture in the bank, entitled – Lean. We prepared a model of management, an implementation timetable and a concept for maintaining Lean in Tatra banka. In line with these management documents, we systematically approached individual units of the bank and will proceed in this way also in 2012. According to a defined matrix, we resolved implementation of Lean accordingly for the specific bank unit. We concentrated, for instance, on introducing the programme Strength of Simplicity, which should acquaint each employee with the basics of Lean and the principles of waste. We opted for a totally different tactic when introducing the system to units for corporate clientele, where we applied its more sophisticated tools considering the strong emphasis on client satisfaction. In 2011 we anchored our place in terms of Lean within the RBI group, for which we are acting as the reference country.

Natália Major
Member of the Board of Directors, Head Office VIII

Statement by Vladimír Matouš

The aim of IT in Tatra banka is to get even closer to the client

For the organisation of IT, the year 2011 was yet another year that focused on achieving our mission, which is to enable Tatra banka to remain the market leader in innovations on the Slovak market thanks to the provision of quality and effective IT services.

By meeting our strategic goals, foremost through increased productivity and effective cost-management, we took yet another step to achieving our vision, which is for our customers to perceive us as a trustworthy and preferred partner in the provision of IT services.

We once again increased our productivity by more than 20 per cent year-on-year. In terms of efficiency, we continued with conceptual measures aimed chiefly at further consolidation of infrastructure and practical implementation of the principles of enterprise architecture, which in future will let us supply IT solutions swifter and at lower cost.

It is also important for us to monitor and implement new technologies in practice so that they provide greater comfort to Tatra banka clients. The Card & Reader in mobile telephones, which ensures a high degree of security and also provides greater user comfort, is a perfect example of this.

The quality of our services clearly depend on the professionalism of our employees, which is why we devote ourselves in a targeted way to developing the IT organisation culture so as to support overall performance.

Vladimír Matouš
Member of the Board of Directors of Tatra banka, Head Office V

Survey of key data according to International Financial Reporting Standards

Tatra banka Group (in EUR thousands)	2011	2010	Change
Consolidated Statement of Comprehensive Income			
Net interest income	290 831	267 885	8.6%
Provisions for impairment losses	(15 092)	(43 948)	(65.7)%
Net fees and commission income	103 675	102 194	1.4%
Net profit (loss) from trading instruments	15 103	14 277	5.8%
General administrative expenses	(223 984)	(221 456)	1.1%
Profit before income taxes	174 655	124 067	40.8%
Comprehensive consolidated profit after tax	139 084	94 165	47.7%
Earnings per ordinary share (nominal value per share: 800 EUR)	1 899	1 387	37.0%
Earnings per ordinary share (nominal value per share: 4 000 EUR)	9 497	6 934	37.0%
Consolidated Statement of Financial Position			
Loans and advances to banks	168 972	530 486	(68.1)%
Loans and advances to customers, gross	6 357 055	5 769 270	10.2%
Deposits from banks	101 414	61 582	64.7%
Deposits from customers	6 932 867	6 801 644	1.9%
Equity (including consolidated profit)	1 051 527	849 450	23.8%
Balance sheet total	9 160 811	8 762 114	4.6%
Performance			
Return on equity (ROE) before tax	19.8%	15.9%	24.9%
Cost/income ratio	53.94%	57.15%	(5.6)%
Return on assets (ROA) before tax	1.9%	1.4%	39.6%
Tier 1 ratio, total	13.06%	9.62%	35.8%
Own funds ratio	13.24%	10.85%	22.0%
Resources			
Number of staff on balance sheet date	3 509	3 492	0.5%
Branches on balance sheet date 1)	151	154	(1.9)%

Ratings	Long-term	Outlook	Short-term	Bank Financial Strength
Moody´s Investors Service	A2	negative	Prime-1	C-

1) Inclusive of Corporate centres, “Centrum bývania” branches and the Investment centre

Tatra banka - Strong Member of a Strong Group

Tatra banka is a subsidiary of Raiffeisen Bank International AG (RBI), which regards Central and Eastern Europe (including Austria), as its home market. For nearly 25 years, RBI has been operating in the Central and Eastern Europe (CEE) region, where today it maintains a closely knit network of subsidiary banks, leasing companies and numerous specialized financial service providers in 17 markets. As a universal bank, RBI ranks among the leading banks in the region. The powerful role played by the bank is supported by the Raiffeisen brand, which is one of the most widely recognized brands in the region. Following its strategic realignment in 2010, RBI has positioned itself as a fully integrated corporate and retail banking group in CEE. The bank not only has good access to retail and corporate customers, but also a comprehensive product offering. At the end of 2011 around 56,000 staff served approximately 13.8 million customers in around 2,915 business outlets in CEE.

In Austria, RBI is one of the top corporate and investment banks. It primarily serves Austrian customers, but also international as well as major multinational clients operating in CEE. Moreover, RBI is represented in the world‘s financial centers and operates branches and representative offices in Asia. All in all, RBI employs about 59,000 staff and has total assets of approximately € 147 billion.

RBI operates subsidiary banks in the following CEE markets:

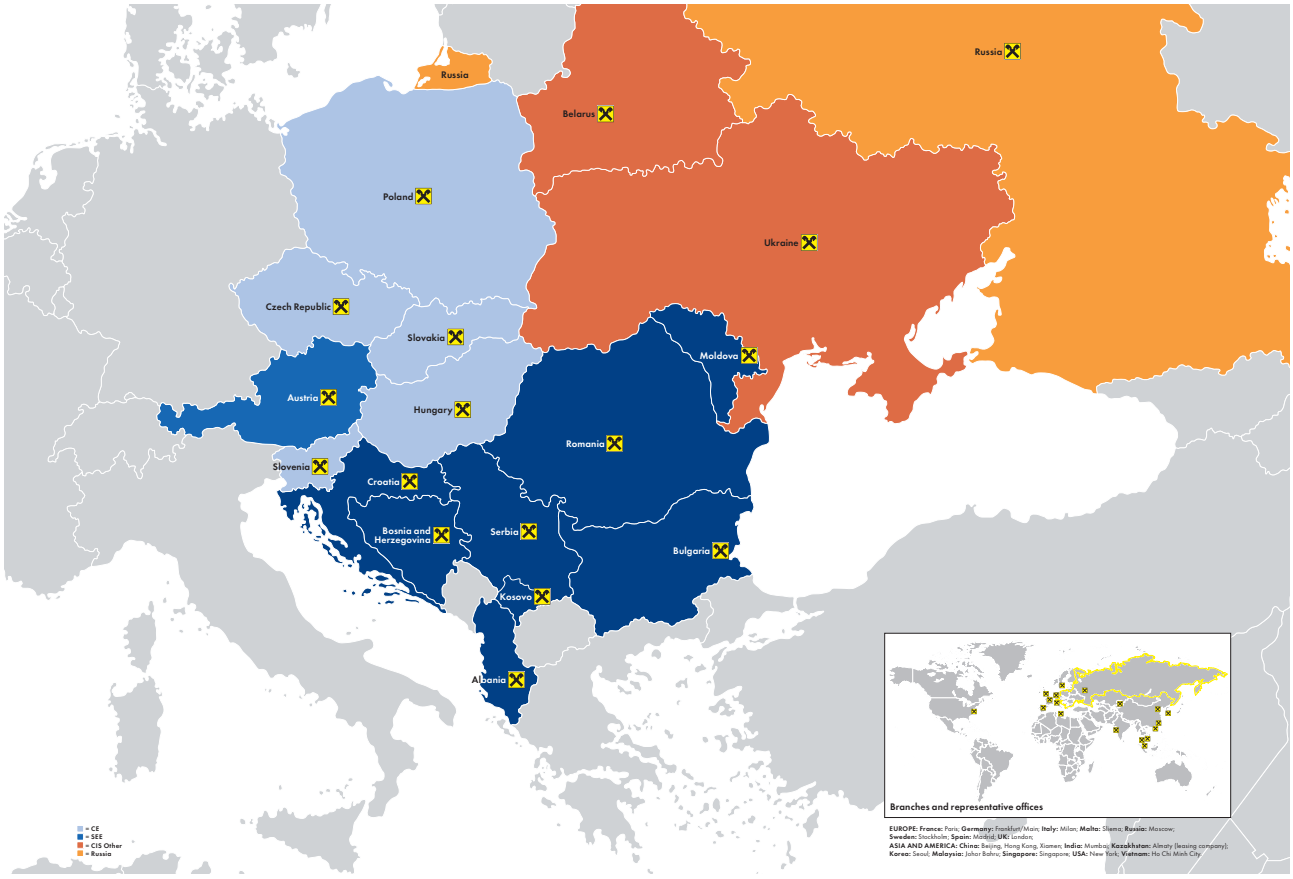
- Albania — Raiffeisen Bank Sh.a.
- Belarus — Priorbank, OAO
- Bosnia and Herzegovina — Raiffeisen Bank d.d. Bosna i Hercegovina
- Bulgaria — Raiffeisenbank (Bulgaria) EAD
- Croatia — Raiffeisenbank Austria d.d.
- Czech Republic — Raiffeisenbank a.s.
- Hungary — Raiffeisen Bank Zrt.
- Kosovo — Raiffeisen Bank Kosovo J.S.C.
- Poland — Raiffeisen Bank Polska S.A.
- Romania — Raiffeisen Bank S.A.
- Russia — ZAO Raiffeisenbank
- Serbia — Raiffeisen banka a.d.
- Slovakia — Tatra banka, a. s.
- Slovenia — Raiffeisen Banka d.d.
- Ukraine — VAT Raiffeisen Bank Aval

As the parent company of these banks, RBI‘s shareholding in them is at or near to 100 per cent in most cases.

RBI‘s development

RBI was established in October 2010 through the merger of Raiffeisen International with the principal business areas of Raiffeisen Zentralbank Österreich AG (RZB). RBI‘s position as one of the leading banks in CEE (including Austria) was further reinforced by the merger. RBI has been listed on the Vienna stock exchange since 25 April 2005 (until 12 October 2010 as Raiffeisen International). It is represented in several leading national and international indices, including the ATX and EURO STOXX Banks. RZB remained the majority shareholder following the merger, holding approximately 78.5 per cent of the shares. The remaining 21.5 per cent of RBI‘s shares are in free float.

RZB was formed in 1927 as “Genossenschaftliche Zentralbank” (GZB). Raiffeisen gained its first foothold in Central and Eastern Europe back in 1987, when it established its first subsidiary bank in Hungary. Other own subsidiaries have since been established; from 2000 onwards, Raiffeisen‘s expansion in the CEE countries has mainly been achieved by acquiring existing banks, which were combined into a holding company that from 2003 until October 2010 operated under the name Raiffeisen International. Raiffeisen International was listed on the stock exchange in April 2005 in order to finance its future growth as efficiently as possible. RBI was subsequently established in 2010 through the merger of Raiffeisen International with the principal business areas of RZB.



125 years of Raiffeisen in Austria

Raiffeisen‘s strong roots in Austria date back more than 125 years. Raiffeisen‘s first Austrian credit cooperative was founded in Mühldorf, a village in Lower Austria, in 1886. Local cooperatives soon started working together and, in turn, founded regional cooperatives marking the beginning of the multi-tiered structure of the Raiffeisen organization. This not only helped to strengthen their position in the market, but also enabled better management and risk control. Numerous product and service cooperatives were founded on the back of increasing specialization and market integration. In mid-2011, the Raiffeisen Banking Group Austria (RBG), the country‘s largest banking group, managed € 83.8 billion in Austrian customer deposits (excluding building society savings), of which around € 50.3 billion was held in savings deposits; with a market share of 32.2 per cent, RBG has continued to expand its role as market leader among Austria‘s banks. RBG has achieved its strong market position through healthy organic growth.

For more information please refer to www.rbinternational.com and www.rzb.at.

Gable Cross

The gable cross is part of the trademark used by almost every company in the Raiffeisen Banking Group and RZB Group in CEE. It represents two stylized horse’s heads, crossed and attached to the gable of a house. It is a symbol of protection rooted in old European folk tradition: a gable cross on the roof was believed to protect the house and its occupants from outside dangers and to ward off evil. It symbolizes the protection and security that the members of the Raiffeisen banks enjoy through their self-determined collaboration. Today, the gable cross is one of Austria’s best-known trademarks and a well recognized brand in CEE.

Raiffeisen Banking Group

The Raiffeisen Banking Group (RBG) is Austria‘s largest banking group by total assets. As per year-end 2010, RBG‘s consolidated balance-sheet total amounted to more than € 255 billion. It represents about a quarter of all banking business in Austria and comprises the country‘s largest banking network with more than 2,200 business outlets and 24,000 employees. RBG consists of Raiffeisen Banks on the local level, Regional Raiffeisen Banks on the provincial level and RZB as central institution. RZB also acts as the link between the international operations of its group and RBG. Raiffeisen Banks are private cooperative credit institutions, operating as general service retail banks. Each province‘s Raiffeisen Banks are owners of the respective Regional Raiffeisen Bank, which in their entirety own approximately 89 per cent of RZB‘s ordinary shares.

The Raiffeisen Banks go back to an initiative of the German social reformer Friedrich Wilhelm Raiffeisen (1818 – 1888), who, by founding the first cooperative banking association in 1862, has laid the cornerstone of the global organization of Raiffeisen cooperative societies. Only 10 years after the foundation of the first Austrian Raiffeisen banking cooperative in 1886, already 600 savings and loan banks were operating according to the Raiffeisen system throughout the country. According to Raiffeisen‘s fundamental principle of self-help, the promotion of their members‘ interests is a key objective of their business policies.

Raiffeisen Bank International

Raiffeisen Bank International AG (RBI) regards Central and Eastern Europe (CEE), including Austria, as its home market. In CEE, RBI operates as a universal bank through a closely knit network of subsidiary banks, leasing companies and numerous specialized financial service providers in 17 markets. At the end of 2011 around 56,000 staff served approximately 13.8 million customers in around 2,915 business outlets in CEE. In Austria, RBI is one of the top corporate and investment banks. Moreover, RBI is represented in the world‘s financial centers and operates branches and representative offices in Asia. All in all, RBI employs about 59,000 staff and has total assets of approximately € 147 billion.

RBI has been listed on the Vienna stock exchange since 25 April 2005 (until 12 October 2010 as Raiffeisen International). It is represented in several leading national and international indices, including the ATX and EURO STOXX Banks. RZB is the majority shareholder holding approximately 78.5 per cent of the shares. The remaining 21.5 per cent of RBI‘s shares are in free float. With its long-term „A“ (S&P, Fitch) and „A1“ (Moody‘s) ratings, RBI is also a regular issuer of debt securities.

RZB

Founded in 1927, Raiffeisen Zentralbank Österreich AG (RZB) is the central institution of the Austrian Raiffeisen Banking Group (RBG) and acts as group centre for the entire RZB Group, including RBI. RZB functions as the key link between the Austrian Raiffeisen Banking Group and RBI, with its banking network in Central and Eastern Europe (CEE) and numerous other international operations.

RZB Group

The Group owned and steered by RZB. Raiffeisen Bank International is the Group‘s largest unit.

The Slovak Economy in 2011

The consolidation plan for public finances in 2011 was more than fulfilled, but the projected 3 per cent deficit in 2013 is still not in sight. Considering the deteriorating outlooks for development of the world economy, and also ours, meeting this target will still require a huge effort. It was not possible to avoid the spread of the Greek contagion and problematic public finances are dictating the decision-making of politicians also in the other countries.

The openness of the Slovak economy forces us to start evaluating its development in the light of world events. The revival that in 2010 was attributable mostly to the expansion of fiscal and monetary policy started to lose steam in the first half of 2011. The most acknowledged forecast indicator Purchasing Manager Index (PMI) reached its highest value in February (58.2 points), which was the highest level since mid-2006. Economic growth was therefore not the hottest topic at the beginning of the year. The problem that the European Central Bank (ECB) started to deal with more intensively was inflation growth above the 2 per cent inflation target of the central bank. In April, the year-on-year growth in prices in the eurozone came to almost 3 per cent. The ECB therefore started in March to send out signals about a slow turnaround in the direction of monetary policy, which was fairly surprising considering the prevailing debt problems of the eurozone countries. At the April session, the Board of Governors announced an increase in rates by 25-basis points and the markets revised their forecasts of development of the basic interest rate upwards. At the end of the year a key interest rate of 2 per cent was expected.

The year 2011 was also a year of ratification, and for Portugal also application, of crisis mechanisms for extinguishing the problems in public finances in eurozone countries. At the same time, problems resurfaced surrounding the Greek debt. At the June summit, European leaders decided to provide Greece with a further loan of EUR 109 billion, with the private sector also voluntarily getting involved in the restructuring of Greece's debt. Top politicians in the eurozone tried at their regular sessions to come up with new solutions to the debt crisis, in order to stop the market from being seized by panic. Thanks to the relatively good outlooks of economic growth, they managed to achieve this, at least partially, around about the middle of 2011.

The sentiment towards the large problematic economies like Italy and Spain started to take a strong swing for the worse as we entered the second half of the year. The European Central Bank had already endorsed a hike in the key interest rate to 1.5 per cent at its July session, but this was its last intervention in terms of employing a stricter monetary policy. In the weeks that followed, the number of negative reports accumulated and the level of trust in Italy and Spain's ability to repay their debt weakened. At the same time, considerations about the potential break up of the eurozone as such started to gain in weight. The negative sentiment on the markets culminated throughout the month of July, which pushed the yields of 10-year bonds of the said countries to over 6 per cent. Such a high interest rate was also regarded as unsustainable over the long-term, especially in the case of Italy, which was suffering around 120 per cent debt to GDP ratio.

At the beginning of August, Standard&Poor's downgraded the long-term credit rating of the USA from AAA to AA+, which just aggravated the situation on the markets even further. The ECB was forced once again to make a significant intervention on the secondary market and start buying the bonds of countries in trouble. With this operation the central bank managed to push yields to below 6 per cent for several weeks to follow. Although the positive outlooks for economic growth in the eurozone consistently deflated from February onwards, the leading indicator PMI for the eurozone did not drop to below the critical value of 50 points until September. This indicated an impending decline in the economic performance of the whole monetary block. The problems now no longer affected only the peripheral economies, as they sucked in the likes of France and Germany. After roughly 3 per cent GDP growth, in 2012 Germany can now expect its economic performance to sink, or at the very least, stagnate.

The worse outlooks in the eurozone could definitely be put down to the effort to increase the credibility of the banking sector. According to the regulation of the European Banking Authority, by 30 June 2012 banks are to raise their capital adequacy to 9 per cent. Based on the other prescribed conditions, there is the risk of a drop in credit exposure in relation to the private sector, which will have a negative impact on GDP growth. The reaction of the ECB, now with new Italian boss Mario Draghi at its helm, was the announcement in November that it was once more easing up the monetary policy. For the next two consecutive months the key interest rate dropped to 1 per cent again. The largest impulse, though, was the announcement of two 3-year unlimited tenders for the supply of liquidity to commercial banks. Alongside the threat of the eurozone economies experiencing a slowdown, fears of inflation also dispersed, which to a certain extent frees up the central bank.

Naturally, the economic events reflected accordingly also on development of the EUR/USD exchange rate. It started the year at around 1.33, but thanks also to more positive development in Europe than in the USA, at the beginning of May the euro managed to attack the threshold of 1.5 EUR/USD. This was followed, however, by a fairly volatile gradual drop to below 1.3 EUR/USD at the close of the year.

The Slovak economy therefore managed to generate 3.3 per cent growth even in such a turbulent year. Considering the consolidation of public finances and the continued decline in household consumption, the key driving force of this growth was foreign demand, followed to a certain extent by a growth in investments (5.7 per cent).

The sector that benefits most from foreign demand is industry. In 2011 it registered a growth in production by 6.9 per cent, and although at the beginning of the year it enjoyed double-figure growth, at the year end production was just slightly above zero. The largest share in this growth fell to the automotive sector, of course, which boasted 17.3 per cent growth compared with the previous year. A large part of the growth in industrial production can be attributed to mechanical engineering with its 20.8 per cent year-on-year growth. An unusually high level of growth in excess of 12 per cent was seen in the textile industry, boosted mainly by the natural disasters in Asia and the temporary relocation of part of production to Slovakia. Conversely, after years of strong expansion the production of computer, electronic and optical goods suffered a decline. This sector, which enjoyed growth even in the troubled year of 2009, faced weaker demand in 2011 and a year-on-year drop in production by 7.7 per cent. The long-term positive results in industry reflected also in employment figures. The average year-on-year growth came to 1.5 per cent, thanks chiefly, of course, to those sectors that drove also production growth forward.

Services also contributed to the growth of the Slovak economy. With just a few exceptions, market services enjoyed double-figure growth in revenues. The average growth for the year in sales revenue for services came to 14.4 per cent. Due to a drop in real wages in Slovakia, sales revenue of sectors dependent primarily on domestic consumption were in the red in real terms. This drop affected mostly retail, wholesale and also restaurants and accommodation services. Retailers were even worse off than they were in 2010.

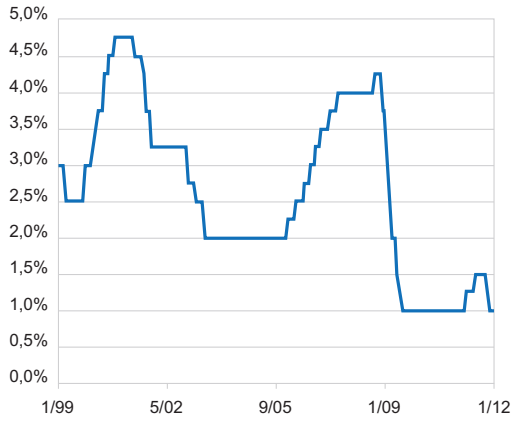
For the building sector, the year 2011 did not produce any major improvement in the situation, despite production figures returning to the black, especially at the end of the year. The average for the year was -1.7 per cent, with employment figures in the sector mirroring this development.

Wages had grown each year since 2003 not only in nominal terms, but also in real terms. This is not true of 2011, though, due to weak growth in nominal wages of around three percent, but mostly thanks to high inflation. The nominal growth in wages has been on similar levels since 2009. Some sectors of the economy even experienced a drop in nominal wages. In public administration, fiscal consolidation led not only to a drop in the number of employees, but also to a drop in the average nominal wage.

The rising employment figures naturally reflected in a drop in unemployment. In the first quarter the unemployment rate was on the level of 13.9 per cent, dropping to 13.1 per cent in the second and third quarters. Due to deterioration in the situation to the end of the year, also because of seasonal factors, unemployment went up again, taking the average for the year to 13.5 per cent. It must be said, though, that the development of unemployment was to a large extent helped on by the high rising number of people being put on the state re-activation programme for the unemployed.

Foreign trade, which contributed most to economic growth in Slovakia, faithfully copied the sentiment at our business partners. At the beginning of the year the year-on-year growth in both import and export was in the range of 30 per cent. Growth declined in the course of the year, however, and in the case of import it even reached zero. Due mostly to weaker imports of investment goods, the foreign trade surplus hit an all-time high volume of EUR 2.5 billion.

ECB key rate



Source: Reuters

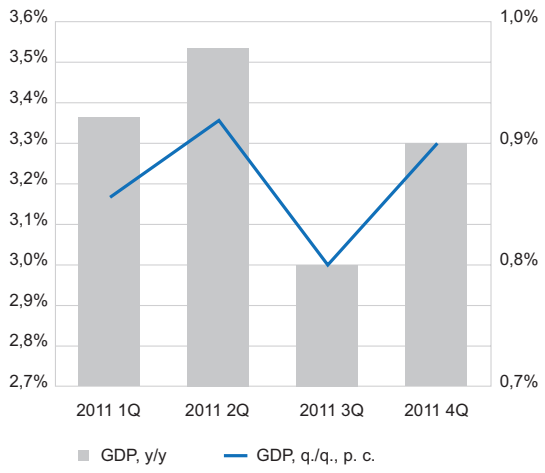
EUR / USD

Source: Reuters

Fiscal consolidation was applied not just to expenditures, but also to revenues. The increase in income was party ensured by an increase in indirect and excise taxes with a direct impact on consumer prices. Thanks to a revival in the economy, demand pressures also contributed to inflation growth, however. It is for these reasons that the consumer price index rose by 3.9 per cent after two years of what was very low inflation in Slovak terms. The greatest share in the price level growth came from the prices of goods and services related to housing, meaning electricity, heat and gas. These prices increased by an average of roughly 5 per cent in 2011. Prices in transport and in foods and drinks increased even more rapidly, though. In the case of transport, prices increased all year mostly thanks to rising fuel prices and then at the end of the year, thanks to a railway price hike by an average of around 7 per cent. The prices of foodstuffs grew by over 6 per cent last year, putting them second in the ranking of growth. To the end of the year the growth in prices slowed slightly and the tempo of inflation growth should drop significantly thanks to a high comparative base.

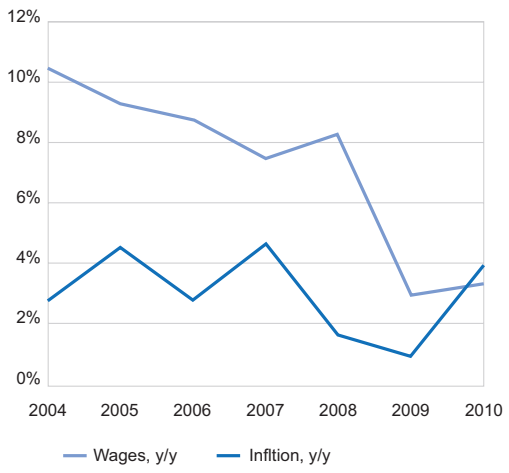
One of the greatest positives of 2011 was the already mentioned fiscal consolidation, which saw the deficit in public financing shrink from 7.7 per cent in 2010 to just 4.6 per cent in 2011. Due to the offsetting of liabilities of public administration toward hospitals and railway companies, which arose in 2008, 2009 and 2010, the debt in 2011 will be increased compare to former estimate. Based on the recent information from Ministry of finance the deficit of public finance in 2011 should be 5 per cent of GDP.

GDP quarterly growth in2011



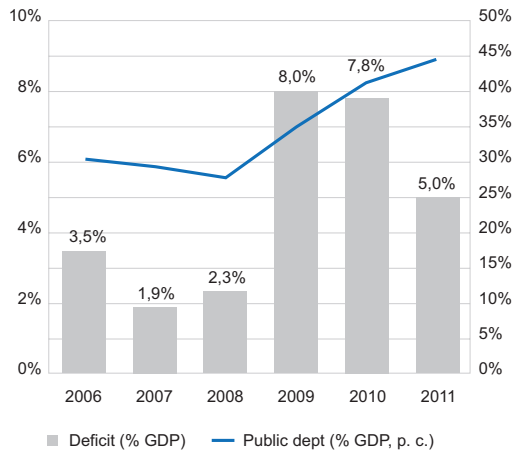
Source: Statistical office of SR

Wages & inflation



Source: Statistical office of SR

Public debt & deficit in SR



Source: Eurostat

Development of the Banking Sector in 2011

The Slovak banking sector enjoyed favourable development influenced by the ongoing economic growth, especially in the first half of the year. The volume of client loans increased in 2011 by 8.4 per cent, which was the fastest tempo of growth seen since 2008. Even faster growth was registered in traditional personal loans, which were up almost 11 per cent year-on-year. As part of personal loans, most favourable development was seen in housing loans with a growth of 16.3 per cent over 2010. The strong growth rate in housing loans even in a period of relatively weak economic growth proves that the demand in the residential property market is still far from being saturated. Business loans also enjoyed growth of 6.6 per cent after two previous years of decline.

Client deposits in banks were up 3.6 per cent upon a 7.3 per cent growth in personal deposits and in excess of a 1 per cent drop in deposits in the business sector. In 2011 there was a change of structure of personal deposits. Despite the low official interest rates of the European Central Bank, interest rates in term deposit accounts with fixed terms of 1 - 3 years reached an attractive level for private individuals. This led to the migration of some current account deposits and short term deposits to longer fixed term deposits. The total volume of private term deposits increased by an impressive 18.8 per cent in 2011.

The net profit of the banking sector in 2011 came to EUR 674.2 million, which translates as a 32 per cent year-on-year growth. The favourable economic results were influenced by a 9.3 per cent growth in total revenues. The majority of banks benefited also from a drop in the net formation of provisions for impairment losses by an average of over 40 per cent. The economic results of the banking sector were boosted also by the ongoing strict cost-effectiveness, when after two years with a nominal drop in operating costs a growth of just 1 per cent was seen in banking sector expenses in 2011.

Risk Management and Basel II

A well organised and consolidated system of risk management plays a very crucial role for the long-term effective functioning of the Bank. This role is perceived very responsibly in Tatra banka, also in the context of its systemic importance for the whole banking sector. As part of this, the Bank thoroughly satisfies the requirements of European directives implementing the rules known as Basel II, whereby their application is based on respective local legislative norms, while it is also actively preparing for the introduction of new regulatory rules known as Basel III. During the process of negotiating and approving the respective local legislative norms, the Bank actively participates in the activities of the Slovak Banking Association and its individual committees and working groups. The Bank plays just as important a role also in multilateral meetings with regulatory authorities and other organisations.

The concept, methodology and documentation for activities concerning risk management and Basel II are prepared in close co-operation with RBI, while respecting the local specifics of the Bank and the whole banking environment. Respective methodological concepts and process procedures then become an integrated part of the process of managing individual fields in the Bank, and are regularly updated in line with legislative or internal changes and strictly controlled by internal audit.

The aim of activities carried out in the field of risk management and Basel II is foremost to ensure as best as possible the most accurate evaluation, quality management and mitigation/elimination of credit, market, operational risks and other risks bank is exposed to. Achieving this goal depends chiefly on:

- Identifying risks resulting from bank products and processes
- ensuring the quality collation and preservation of relevant and potentially-relevant data,
- to produce a reliable methodology for measuring individual types of risk,
- to ensure effective and quality processes for prudent management of individual types of risk,
- to ensure quality and secure IT systems for automating processes, the collection and analysis of data,
- calculations and the provision of outputs.

These processes, also considering the changes in the economic environment, are becoming a key element for ensuring the long-term stability of the Bank's risk profile and its capital requirements, as well as the return from its own sources.

Likewise, pursuant to legislative requirements the Bank regularly publishes information about its activities, working procedures and results in great detail, which ensures transparency in relation to regulators, business partners and clients, also in the area of risk management.

Credit risk

To quantify risk-balanced assets and regulatory capital requirements for credit risk, which accounts for the biggest part of bank risks, from 1.1.2008 the Bank has been using a Standardised procedure, the aim of which was, and is, to switch to using the Internal Rating Based approach (IRB approach) as soon as possible. This is based on the use of internal rating models and internal estimates of risk parameters for the management, quantification and reporting of individual types of credit-related risks in line with its Implementation plan.

From 1.1.2009 the Bank has calculated the capital requirement in terms of the approved IRB approach for a large part of the non-retail portfolio (i.e. for sovereign entities, institutions, corporate entities, project financing, insurance companies, investment in funds and purchased receivables). Based on the approved IRB approach, the Bank is authorised to quantify capital adequacy for the aforementioned organisations through its own estimates of the projected likelihood of the counterparty defaulting, making the quantification of credit risk much more risk-sensitive, and also the capital requirement corresponds to the assumed risk much more in real time. Even during the previous turbulent economic times, this approach made it possible for the Bank to include in its capital requirement the influence that the period of economic decline had on its portfolio. In connection with use of IRB approach bank and the group continuously work on rating models with aim to maximize their prediction strength.

Based on the Implementation Plan, the Bank also approved the use of the IRB approach from 1 April 2010 also for the retail part of its portfolio, which allows the Bank to calculate also the risk profile of this portfolio based on its own estimates of all significant risk parameters, foremost regarding the likelihood of retail clients defaulting and their exposures, losses in the case of default and credit conversion factors for off-balance sheet exposition and then to utilise these estimates for comprehensive portfolio risk management. In 2011 bank also intensively and successfully worked on optimisation of estimation of these parameters.

An essential part of the activities of 2011 comprised continuation in the implementation of complex change management also with regard to key retail and non-retail risk processes with the aim of achieving their long-term stability and trustworthiness. Well established change management enables bank to flexibly react to internal as well as external impulses and apply the changes in practice.

The basic principles of managing the credit risk of non-retail clients are set out in the Credit Manual of the RBI Group, which is binding for the whole group. The direction of the Bank in managing non-retail credit risk is elaborated in more detail in the Credit Policy of Tatra banka, which is pre-approved each year by the Supervisory Board. For the upcoming period, the Credit Policy defines target, restricted and excluded sectors of financing, the minimum requirements for a credit transaction with each client (rating, value of collateral, requested margin), and also the target structure of the loan portfolio. The Bank is very conservative in the formation of provisions, and apart from individual provisions it forms also portfolio provisions for the non-retail loan portfolio.

Regarding retail risk, in 2011 the Bank continued to concentrate primarily on stabilising the quality of the loan portfolio and the development of infrastructure, also in line with the approved IRB approach. The process of regularly developing and updating scorecards greatly helps also to have reliable and consistently managed portfolios. The goal of building up infrastructure is to create a reliable solution that makes flexible reaction to external changes possible. A fundamental part of this is to define targets for individual components of credit risk management, and also for employees themselves. The mentioned process can be characterised as a comprehensive approach comprising thorough preparation and subsequent application of the principles of credit risk, credit policy and guidelines, as well as effective management tools.

Market risk

In the area of market risks, year 2011 was the year of increasing distrust in the quality of sovereign debt of Eurozone countries and year of uncertainty regarding stability of banking sector. Tatra banka proved its prudent approach for investing in fixed income securities, where price decrease of selected Eurozone countries (so called PIIGS countries) had no impact on profitability of the bank. Another factor resulting from economic and political situation in EU was high volatility on foreign exchange markets – for major currencies such as EUR and USD and for emerging markets, as well. Reaction of the bank was decrease of the limits and exposures in foreign currencies.

The high priority is still to monitor all types of market risk very carefully. The methods and models used for monitoring market risk are therefore still subject to strict supervision and the parameters affecting the outputs are regularly re-appraised so as to reflect the situation on the financial and capital markets as accurately as possible. The limits protecting the Bank against turbulences on the markets are set prudently and conservatively in order to constrain losses in the event of negative development.

Liquidity risk is thoroughly monitorted and is subject to internal limits of the bank, limits of the RBI group and limits of the National Bank of Slovakia, which all were fulfilled during the whole year 2011. Bank paid increased attention to new EU legislation regarding liquidity within Basel III framework and is compliant in advance with Liquidity Coverage Ratio limit and Net Stable Funding Ration Limit.

Operational risk

Calculation of amount of regulatory capital to cover operational risk is done in the Bank using the standardised approach method. As the Bank is well aware of the seriousness and possible impact of operational incidents on the profit and value of the Bank, it uses a set of qualitative and quantitative methods for identifying and managing operating risks. Bank devoted increased effort to collection of operational losses – especially to completeness of evidence of discovered operational losses. Improved evidence enabled the bank to identify and measure operational risks in processes and products more accurately and to undertake steps to mitigate operational losses in the future.

The most significant risk and the risk with the greatest impact in terms of operational risks is also this year the risk of external credit frauds with related losses. The Bank gives high priority to minimizing successful fraud attempts and in 2011 succesfully implemented new tool for automatic detection of credit frauds.

Basel II, Pillar 2 and economic capital

The Bank has implemented and is continually modifying and supplementing the methodology and process procedures also for the internal process of determining capital adequacy (so-called Pillar 2). As part of this process, all relevant risks are evaluated regularly in the Bank in line with the risk profile, their quantification and evaluation in the context of the risk appetite that the Bank is willing to undergo and the projected formation of capital and subsequent reporting for the Bank management.

In the course of 2011 the Bank covered identified risks with a safe reserve using internal capital.

The process of capital allocation is an integral part of this, as it is closely linked to the budgeting process. As part of this process, by using an approved allocation key individual commercial units of the Bank are assigned an expected level of the performance indicator Return on risk adjusted capital (RORAC). This indicator expresses the level of yield in relation to risk, which individual transactions, portfolio and business units should achieve in order to satisfy the anticipated goals of the shareholder at an acceptable level of risk. A risk-adjusted view of the Bank's performance will continue to be a priority also in the upcoming year 2012.

Forecasting and stress testing capital adequacy

Due to the transition to more advanced ways of measuring risk and capital adequacy, together with changes in the economic environment, a crucial aspect of risk management is the thorough prediction of capital adequacy, as well as stress testing, with the aim of eliminating the impact of unforeseeable events and for the sake of effective capital planning. Information about individual risks facing the Bank and about capital are taken into account in the actual running of the Bank and in its sales strategies so as to achieve an optimum compromise between reducing individual types of risk and increasing market share, profit and return on capital. The risk-sensitive quantification of regulatory capital requirements and economic capital constitute the basis of an objective decision-making process.

In 2011 the Bank continued to develop its stress testing of capital adequacy for credit risk based on internal estimates of risk parameters, this in relation to potential changes to estimated risk parameters, the migration of clients and receivables as part of rating levels, a drop in the values of security, the state of economic recession and other changes for all material sub-portfolios of the Bank. Integrated results of stress testing were presented to the Bank management, and their results showed that the Bank has sufficient internal capital to cover losses arising out of stress scenarios.

Summary of Consolidated Performance

The consolidated after-tax profit of the Tatra banka group boasted a 47.7 per cent year-on-year growth, or EUR 44.9 million in absolute terms, to reach the level of EUR 139.1 million. This positive result can be put down chiefly to a 65.7 per cent drop in the need to allocate provisions on client loans, thanks to the prudent risk policy employed by the bank and also effective cost management that grew significantly less than inflation.

Faster year-on-year growth in operating income compared to operating expenses led to a drop in the cost-income ratio by 3.2 per cent to 53.9 per cent from last year's 57.2 per cent level.

The balance sheet amount of the Tatra banka group came to EUR 9.2 billion, representing a 4.6 per cent growth over the previous year. The volume of the loan portfolio also increased by 10.2 per cent, which meant the speed of growth had almost doubled compared to 2010. Client deposits registered a slightly faster tempo of growth than the previous year, with the annual growth reaching 1.9 per cent.

Development of income and expenses

The growth in Net interest income by 8.6 per cent to the level of EUR 290.8 million was affected by increase in balance sheet amount that included mostly increase of loan portfolio volume. The growth in Net interest income was also helped on by a growth in interest income from the portfolio of securities held to maturity.

Net commission and fee income was slowly up 1.4 per cent year-on-year to EUR 103.7 million. This growth was mostly down to volume of bank guarantees, the sale of investment gold, as well as the volume of transactions from POS terminals.

Trading result increased by 5.8 per cent year-on-year to reach EUR 15.1 million. The growth in trading result is due to the revaluation of interest and currency derivatives based on interest rate development.

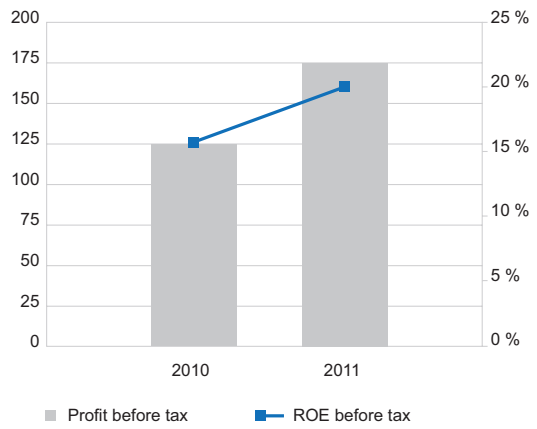
General administrative expenses increased slightly year-on-year by 1.1 per cent to EUR 224.0 million. This means significantly smaller growth regarding inflation and is result of responsible cost policy. This growth was thanks mainly to higher personnel expenses, as well as advertising costs. The number of employees increased by 0.5 per cent to 3,509.

Development of assets

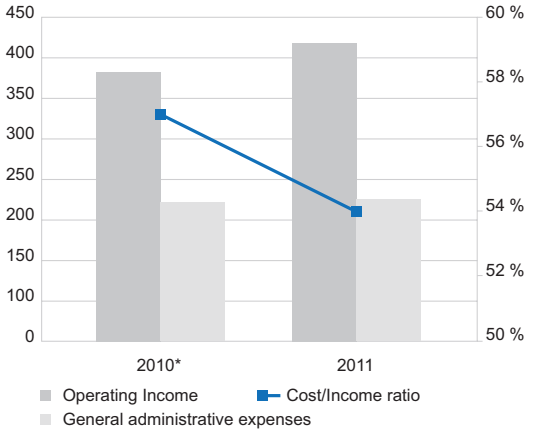
The consolidated balance sheet amount of the Tatra banka group was 4.6 per cent higher

year-on-year, going from EUR 8.8 billion at the end of 2010 to EUR 9.2 billion at the end of 2011. On the assets side of the balance sheet, client loans increased the most, by 10.2 per cent to reach EUR 6.4 billion. As part of these loans, growth was seen particularly in project financing, while in retail loans it was housing loans that did best, together with non-purpose consumer loans and home equity loans. The share of non-performing loans in the overall portfolio had a falling trend during the year, ending 2011 on the level of 5.0 per cent, attesting to the healthy loan portfolio of the Tatra banka Group.

Development of profit and return on equity
(mil. EUR)



Development Cost/Income
(mil. EUR)



* As of 31 December 2011 the group had its VAT reporting adjusted, by which it is not entitled to a deduction, from the entry "Other operating income (profit/loss)" to the entry "General administrative costs". Presentation of the values reported as of 31 December 2010 was adapted for the sake of consistency with the presentation of data for 2011.

Development of liabilities and equity

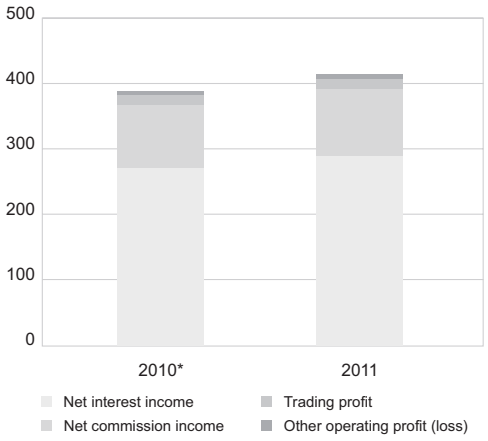
On the liabilities side, strongest growth was in client deposits, which were up 1.9 per cent to the level of EUR 6.9 billion. In terms of client deposits, particular growth was seen in term deposits, with some clients switching funds from current accounts to term deposits, attracted by the good return. This greater interest in term deposits led to a higher share of personal deposits in total client deposits.

The ratio of loans to deposits on a consolidated base came to 91.7 per cent, which points to the favourable liquid position of the Tatra banka group.

The volume of equity of the group increased by 23.8 per cent and to the end of 2011 had reached the value of EUR 1.1 billion. To boost own capital, in 2011 Tatra banka successfully issued ordinary shares worth EUR 130 million mostly by the majority shareholder of Raiffeisen Bank International AG, which saw the subscribed capital of the group increase by 63.7 per cent to EUR 354.0 million. Capital from retained earnings from previous years and from consolidated profit of the current year amounted to EUR 697.5 million upon a year-on-year growth of 10.2 per cent.

The capital adequacy ratio on a consolidated basis as of 31.12.2011 was on the level of 13.2 per cent, meaning the Tatra banka group far exceeded the level of capital adequacy laid down by the regulator. Tier 1 capital ratio reached a level of 13.1 per cent.

Structure of profits
(mil. EUR)



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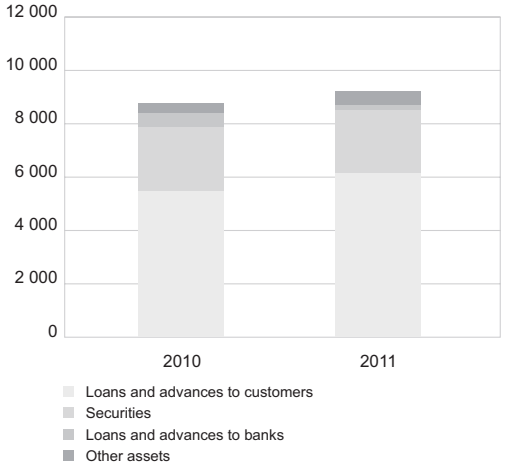
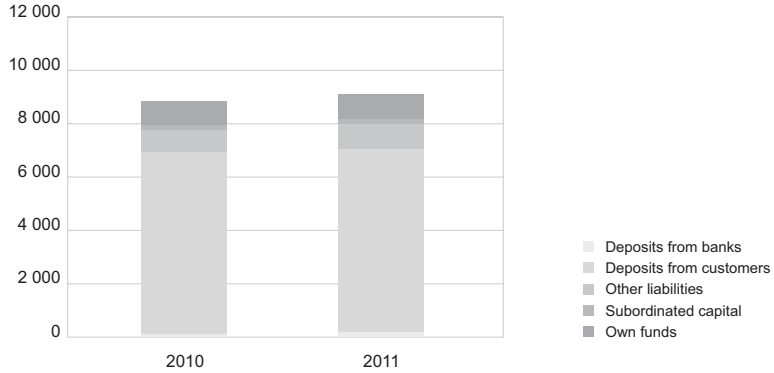
Structure of balance sheet assets
(mil. EUR)



Structure of balance sheet liabilities
(mil. EUR)



Objectives for 2012

Just as in previous years, Tatra banka has set out ambitious targets and objectives also for the 2012 calendar year, while being sensitive to the anticipated financial and economic crisis. Even so, goal is to maintain our position as market leader in innovations, as well as in other segments of banking. In areas where the bank lagged behind the competition, the aim is to be more active and endeavour to improve the position on the Slovak banking market in these areas.

Last year Tatra banka introduced a wide spectrum of innovations to clients. The bank plan to continue in this trend and even implemented some of them already at the beginning of the year. Among these there belongs the launch of the application Reader (**Čítačka**[TB]) for smartphones, with the application being perfected also for other devices, Android and iPhone. In February Tatra banka presented to clients and non-clients alike the new virtual branch of Tatra banka, the first of its kind in Slovakia. The public can now use this untraditional but very comfortable form to get information about products and services and other relevant information. The service is available 24-hours a day. As part of the development of electronic distribution channels, the bank plans to continue developing the beta version of our **Internet** banking[TB], which was launched last year, so that it could replace the existing version and become the primary version for Tatra banka clients.

The bank is preparing various new technologies and services for clients also in the retail segment, where it wants to focus on the quality and comfort of the provided services. This concerns specifically the segment of payment cards, where Tatra banka wants to follow on from the successful project of contactless payment technology and develop it in the context and vision of modern banking using the latest technologies, which are becoming increasingly available to clients. The aim in the area of payment cards is also to develop the quality of services, their availability and the promptness with which clients can get such a payment tool. The level of comfort provided to clients should represent a distinguishable quality of services on the Slovak banking market.

Just as in retail, the bank wishes to expand and improve the services we provide also in the corporate segment, whether it is for small and medium-sized enterprises (SME) or large corporate clients, as well as in the area of project financing. Tatra banka is also interested in expanding the product portfolio in this area where possible. As a conservative bank, Tatra banka will naturally be forced to take into account development of the economic-financial situation, which will affect mostly the provision of credit and related key attributes. In any case, it is in the interest of the bank to continue developing its distinct and unique concept of caring for large business customers, also with the partial restart of acquisition activities concentrating on the sale of capital light products.

In 2012 Tatra banka wants to look at improving the efficiency of processes using the Lean method, which will be applied to all units, not just in the bank, but also in its subsidiaries. The expectations are that this results primarily in an improvement in processes and services, while reflecting secondarily also in other areas. Our objective is not only the legitimate one that concerns every business entity, i.e. the generation of profit and its recapitalisation, as the bank also wants to provide clients with a higher level of comfort, distinct to the Slovak banking market.

Statement for Corporate Governance

The corporate governance system of Tatra banka is regulated by the Code of Corporate Governance in Slovakia, which is an integral part of the Stock Exchange rules for the acceptance of securities on the regulated market (hereinafter "Codex"). It is publicly available on-line at http://www.bcpb.sk.

Specifically, the applied governance methods are based on the Codex and on regulations laid down in the internal guidelines of the Bank and its subsidiaries, such as competency guidelines, branch procedures, the organisation and management of the operation.

Internal controls applied in Tatra banka, a.s. constitute a control system covering all levels of the organisational structure and job positions, which includes process control, both direct and indirect control, as well as out of process control.

The internal control system of the bank is currently based on the guidelines of the group, which together with internal manuals and procedures constitute one of the basic pillars of this system. In line with the group policy in this area, in 2011 the Bank implemented a standardised process of analysing risks in processes, which leads to their improvement and monitoring of the effectiveness of set process controls. The results of the monitoring are presented on a regular basis to the respective authority, as well as to the Supervisory Board exercising the activities of the Audit Commitee, which among other things monitors the effectiveness of internal controls and the risk management system. An Internal Control System Officer with responsibility for implementing the process of analysis, setting the control system and reporting, is operative at the Integrated risk management department.

Internal controls are designed to ensure the safety and protection of assets and individuals, to guarantee the reliability and accuracy of bookkeeping, to support compliance with and communication of the strategy and goals, to enhance effectiveness and compliance with applicable regulations, and to eliminate risks in the interests of preventing losses or damages from being incurred.

Direct control refers to all forms of continuous control measures, procedures and mechanisms in individual units of the Bank or its branches, which are a direct and immediate part of business processes on a daily basis and without which the working process cannot be deemed complete. Direct process control is conducted by employees or the organisational units that are directly involved in specific processes.

Indirect control means all forms of ongoing control measures, procedures and mechanisms in individual units of the Bank or its branches, which are an indirect part of the processes. Indirect process control is carried out by the managers of individual Bank units or branches who are responsible for the controlled processes and for the results of controls, or by employees authorised by them.

Out of process control is independent of operational and business procedures. Out of process control is conducted by a separate and independent internal control and internal audit unit as a regular review of the functionality of the internal control system and evaluation of its efficiency.

Organisationally the unit is divided into the Internal control and internal audit retail department, the Headquarters' and subsidiaries' internal control and internal audit department and the Internal control and internal audit security and information system security department.

Within the organisational structure of Tatra banka, a.s., the Internal control and internal audit unit reports to the Board of Managing Directors and the Supervisory Board. The findings of its audit and internal control activities are communicated to the Supervisory Board in semi-annual summary reports. The Board of Managing Directors is informed about conducted audits and controls in progressive audit and control reports. The Director of the Internal control and internal audit unit informs the Board of Managing Directors and the Supervisory Board about all significant events that occur in the Bank.

As part of risk management, the Bank (the Group) monitors, evaluates and ultimately manages the following types of risks in particular: credit risk, market risks and operational risk.

Credit risk, i.e. the risk that some counterparty will not be able to repay full amounts owed upon maturity, is monitored on a regular basis, and the financial position of each client is reviewed and assessed at least once a year. Exposure to any single debtor is constrained by limits of capital exposure, which are evaluated daily and reported to the NBS on a monthly basis. Retail debtors are assessed using scoring models developed for individual products; SME and corporate clients are assessed using the rating models.

The Group is exposed to market risks in connection with its activity from open positions chiefly from transactions with interest rate, cross-currency and equity products. To determine the level of market risk of its positions, the Group applies internal procedures and models for individual types of risks that the Group is exposed to. These limits are monitored daily.

Operational risk is governed by a standard procedure defined by the parent company, as well as by internally developed methods and procedures. To identify operational risk, the Bank (the Group) uses a three-dimensional model consisting of three components: risk categories, business functions and business lines. The Bank (the Group) puts emphasis on improving process quality and on actions aimed at mitigating operational risks.

More information on individual risks that the Bank (the Group) is exposed to can be found in the notes to the financial statements ending 31 December 2011, which were prepared in accordance with International Financial Reporting Standards as adopted by the European Union, comprising an integral part of the Annual Report for 2011.

The highest body of the Company is the General Meeting. The General Meeting takes decisions on issues that fall under its jurisdiction pursuant to the Commercial Code. In 2011 the Annual General Meeting of the Company was convened on 26 May. The right to attend the General Meeting and exercise other rights was used by 80.88 per cent of owners of ordinary shares. Among other things, the shareholders approved the individual and consolidated annual financial statements and the Annual Report for 2010, decided on the distribution of profit and determination of remunerations, approved the company auditor, decided to increase the share capital by the issue of new shares, entrusted the Board of Directors with increasing the share capital of the Bank by the issue of preference shares, approved a change to the Articles, confirmed co-optation of a member of the Supervisory Board and approved the acquisition of its own shares. The shareholders were paid dividends to the amount approved by the General Meeting at the ratio of their respective shares in the share capital.

The Board of Managing Directors is the statutory body of the Company. Members of the Board are elected and recalled by the Bank's Supervisory Board. The Supervisory Board appoints and recalls the chairperson and vice-chairpersons of the Board of Managing Directors. In 2011 the Board of Directors comprised seven members, with the exception of December, when there were just six members. The Board of Managing Directors convenes usually once a week. The Board makes decisions on all issues related to the Company except for those issues falling under the jurisdiction of the General Meeting or Supervisory Board. At the General Meeting's authorisation, once a year the Board of Managing Directors is authorised to decide on the issue of preference shares up to the total approved amount of the share capital, which is EUR 60,700,000.

The share capital of the company is EUR 64,326,228. It is split into 60,616 ordinary shares with a par value of EUR 800 per share, which accounts for 75.39 per cent of the share capital, 2,095 ordinary shares with a par value of EUR 4,000, accounting for 13.03 per cent of the share capital, and 1,863,357 preferred shares with a par value EUR 4, which accounts for 11.59 per cent of the share capital.

A share in the share capital of the Company corresponding to a qualifying share (minimum of 10 per cent) is held by Raiffeisen International Bank-Holding, AG and Tatra Holding, GmbH, both based in Austria.

Each holder of ordinary shares is a company's shareholder. Each shareholder enjoys fundamental shareholder rights as laid down by the Commercial Code and the company's Article, in particular: the right to share in the company's profit, based on the proportion of total face value of their shares to the share capital; the right to attend the General Meeting, vote at the General Meeting, request information and explanations at the meeting, and raise motions at it, whereby the voting right is determined by the proportion of total face value of shares to the share capital, and also the right to share in the liquidation balance.

Each holder of preferred shares enjoys similar rights; the only difference being that preferred shares are not accompanied by the right to vote at the General Meeting, except in cases where the law acknowledges voting rights also to such shares. In such cases the voting right is based on the proportion of total face value of their shares to share capital. Preferred shares are assigned a preferential right applicable to dividends, i.e. if the Company generates a minimum net profit equal to the number of issued preferred shares, a minimum dividend of EUR 0.03 per preferred share will be paid to the holders of preferred shares.

The negotiability of ordinary shares is not limited. The company has pre-emption rights to preference shares at the price determined according to the principles set out in the company's Articles. Preference shares can be transferred to a party other than the Company or pledged in favour of a party other than the Company only if approved by the Board of Managing Directors. The Board of Managing Directors can refuse to grant approval if the preference shares were not offered firstly for sale to the Company.

The General Meeting decides on changes to the Articles by a two thirds majority of the votes of present shareholders. The consent of the National Bank of Slovakia is required for a change to the Articles to acquire force and effect.

Relations between the Bank (the Group) and members of its bodies or employees in connection with termination of employment and/or resigning from a post for any reason are governed in accordance with the applicable Labour Code.

Management

Supervisory Board

Dkfm. Rainer Franz
Chairman of the Supervisory Board
Raiffeisen Bank International AG
Vienna

Dr. Herbert Stepic
Vice-chairman of the Supervisory Board
CEO Raiffeisen Bank International AG, Vienna

Ing. prof. Peter Baláž, PhD.
Member of the Supervisory Board
Professor of the University of Economics
Bratislava

Aris Bogdaneris
Member of the Supervisory Board
Member of the Board of Directors of Raiffeisen Bank International AG, Vienna

Ing. Pavol Feitscher
Member of the Supervisory Board
Head of Project Management department Tatra banka, a.s. Bratislava

Mag. Dr. Hubert Figl
Member of the Supervisory Board
Head of workout division Raiffeisen Bank International AG
Viedeň

Mag. Reinhard Karl
Member of the Supervisory Board
Executive director
Raiffeisenlandesbank Niederösterreich-Wien AG
Vienna

Ing. Ján Neubauer, CSc.
Member of the Supervisory Board
Financial director of FIT PLUS, s. r. o.
Bratislava

Bank management

Board of Managing Directors

Ing. Igor Vida
Chairman of the Board of Managing Directors and General Director

Ing. Miroslav Uličný
Vice-chairman of the Board of Managing Directors and Deputy General Director

Ing. Marcel Kaščák
Member of the Board of Managing Directors

Mgr. Michal Liday
Member of the Board of Managing Directors

Mgr. Natália Major
Member of the Board of Managing Directors

Ing. Vladimír Matouš
Member of the Board of Managing Directors

Dr. Martin Pytlik (until 30.11.2011)
Member of the Board of Managing Directors

Confidential clerks

Ing. Zuzana Koštialová

Raiffeisen Bank International AG

Austria
Am Stadtpark 9
1030 Vienna
Phone: +43-1-71707 0
Fax: +43-1-71707 1715
www.rbinternational.com
ir@rbinternational.com
rbi-pr@rbinternational.com
Banking network

Albania
Raiffeisen Bank Sh.a.
European Trade Center
Bulevardi „Bajram Curri“
Tirana
Phone: +355-4-238 1000
Fax: +355-4-2275 599
SWIFT/BIC: SGSBALTX
www.raiffeisen.al

Belarus
Priorbank JSC
31A V. Khoruzhey
220002 Minsk
Phone: +375-17-289 9090
Fax: +375-17-289 9191
SWIFT/BIC: PJCBBY2X
www.priorbank.by

Bosnia and Herzegovina
Raiffeisen BANK d.d. Bosna i Hercegovina
Zmaja od Bosne bb
71000 Sarajevo
Phone: +387-33-287 101
Fax: +387-33-213 851
SWIFT/BIC: RZBABA2S
www.raiffeisenbank.ba

Bulgaria
Raiffeisenbank (Bulgaria) EAD
18/20 Ulica N. Gogol
1504 Sofia
Phone: +359-2-9198 5101
Fax: +359-2-943 4528
SWIFT/BIC: RZBBBGSF
www.rbb.bg

Croatia
Raiffeisenbank Austria d.d.
Petrinjska 59
10000 Zagreb
Phone: +385-1-456 6466
Fax: +385-1-481 1624
SWIFT/BIC: RZBHHR2X
www.rba.hr

Czech Republic
Raiffeisenbank a.s.
Hvezdova 1716/2b
14078 Prague 4
Phone: + 420-221-141 111
Fax: +420-221-142 111
SWIFT/BIC: RZBCCZPP
www.rb.cz

Hungary
Raiffeisen Bank Zrt.
Akadémia utca 6
1054 Budapest
Phone: +36-1-484 4400
Fax: +36-1-484 4444
SWIFT/BIC: UBRTHUHB
www.raiffeisen.hu

Kosovo
Raiffeisen Bank Kosovo J.S.C.
Rruga UÇK, No. 51
10000 Pristina
Phone: +381-38-222 222
Fax: +381-38-2030 1130
SWIFT/BIC: RBKORS22
www.raiffeisen-kosovo.com

Poland
Raiffeisen Bank Polska S.A.
Ul. Piękna 20
00-549 Warsaw
Phone: +48-22-585 2001
Fax: +48-22-585 2585
SWIFT/BIC: RCBWPLPW
www.raiffeisen.pl

Romania
Raiffeisen Bank S.A.
Piaţa Charles de Gaulle 15
011857 Bucharest 1
Phone: +40-21-306 1000
Fax: +40-21-230 0700
SWIFT/BIC: RZBRROBU
www.raiffeisen.ro

Russia
ZAO Raiffeisenbank
Smolenskaya-Sennaya sq., 28
119002 Moscow
Phone: +7-495-721 9900
Fax: +7-495-721 9901
SWIFT/BIC: RZBMRUMM
www.raiffeisen.ru

Serbia
Raiffeisen banka a.d.
Bulevar Zorana Djindjića 64a
11070 Novi Beograd
Phone: +381-11-320 2100
Fax: +381-11-220 7080
SWIFT/BIC: RZBSRSBG
www.raiffeisenbank.rs

Slovakia
Tatra banka, a.s.
Hodžovo námestie 3
81106 Bratislava 1
Phone: +421-2-5919 1111
Fax: +421-2-5919 1110
SWIFT/BIC: TATRSKBX
www.tatrabanka.sk

Slovenia
Raiffeisen Banka d.d.
Zagrebška cesta 76
2000 Maribor
Phone: +386-2-229 3100
Fax: +386-2-303 442
SWIFT/BIC: KREKSI22
www.raiffeisen.si

Ukraine
Raiffeisen Bank Aval JSC
Vul Leskova, 9
01011 Kiev
Phone: +38-044-490 8888
Fax: +38-044-285 3231
SWIFT/BIC: AVALUAUK
www.aval.ua

Leasing companies

Austria
Raiffeisen-Leasing International GmbH
Am Stadtpark 3
1030 Vienna
Phone: +43-1-71707 2966
Fax: +43-1-71707 2059
www.rli.co.at

Albania
Raiffeisen Leasing Sh.a.
“European Trade Center”
Bulevardi “Bajram Curri”
Tirana
Phone: +355-4-2274 920
Fax: +355-4-2232 524
www.raiffeisen.al

Belarus
JLLC Raiffeisen Leasing
31A V. Khoruzhey
220002 Minsk
Phone: +375-17-289 9394
Fax: +375-17-289 9394
www.rl.by

Bosnia and Herzegovina
Raiffeisen Leasing d.o.o. Sarajevo
Zmaja od Bosne bb, Building B
71000 Sarajevo
Phone: +387-33-254 354
Fax: +387-33-212 273
www.rlbh.ba

Bulgaria
Raiffeisen Leasing Bulgaria OOD
Mladost 4, Business Park Sofia
Building 7B, 4th floor
1504 Sofia
Phone: +359-2-491 9191
Fax: +359-2-974 2057
www.rlbg.bg

Croatia
Raiffeisen Leasing d.o.o.
Radnicka cesta 43
10000 Zagreb
Phone: +385-1-6595 000
Fax: +385-1-6595 050
www.rl-hr.hr

Czech Republic
Raiffeisen-Leasing s.r.o.
Hvezdova 1716/2b
14078 Prague 4
Phone: +420-221-5116 11
Fax: +420-221-5116 66
www.rl.cz

Hungary
Raiffeisen Lízing Zrt.
Hungaria krt. 40-44
1087 Budapest
Phone: +36-1-477 8707
Fax: +36-1-477 8702
www.raiffeisenlizing.hu

Kazakhstan
Raiffeisen Leasing Kazakhstan LLP
146, Shevchenko St., Flat 1
050008 Almaty
Phone: +7-727-3785 430
Fax: +7-727-3785 447
www.rlkz.kz

Kosovo
Raiffeisen Leasing Kosovo
Gazmend Zajmi n.n., Sunny Hill
10000 Pristina
Phone: +381-38-2222 22
Fax: +381-38-2030 3011
www.raiffeisen-leasing-ks.com

Moldova
I.C.S Raiffeisen Leasing S.R.L.
51 Alexandru cel Bun
2012 Chişinău
Phone: +373-22-2793 13
Fax: +373-22-2283 81
www.raiffeisen-leasing.md

Poland
Raiffeisen-Leasing Polska S.A.
Ul. Prosta 51
00-838 Warsaw
Phone: +48-22-3263 600
Fax: +48-22-3263 601
www.rl.com.pl

Romania
Raiffeisen Leasing IFN S.A .
Nusco Tower
Sos Pipera nr 42, Etaj 1A
020112 Sector 2, Bucharest
Phone: +40-21-306 9696
Fax: +40-37-287 9988
www.raiffeisen-leasing.ro

Russia
OOO Raiffeisen Leasing
Stanislavskogo St. 21/1
109004 Moscow
Phone: +7-495-721 9980
Fax: +7-495-721 9572
www.rlru.ru

Serbia
Raiffeisen Leasing d.o.o.
Milutina Milankovića 134a
11070 Novi Beograd
Phone: +381 11 2017700
Fax: +381 11 7130081
www.raiffeisen-leasing.rs

Slovakia
Tatra Leasing s.r.o.
Hodžovo námestie 3
81106 Bratislava 1
Phone: +421-2-5919 3168
Fax: +421-2-5919 3048
www.tatraleasing.sk

Slovenia
Raiffeisen Leasing d.o.o.
Bleweisova cesta 30
1000 Ljubljana
Phone: +386-1-241 6250
Fax: +386-1-241 6268
www.rl-sl.com

Ukraine
LLC Raiffeisen Leasing Aval
Moskovskiy Prospect, 9
Corp. 5 Office 101
04073 Kiev
Phone: +38-044-590 2490
Fax: + 38-044-200 0408
www.rla.com.ua
Real estate leasing companies

Czech Republic
Raiffeisen Leasing Real Estate s.r.o.
Hvezdova 1716/2b
14078 Prague 4
Phone: +420-2-215116 10
Fax: +420-2-215116 41
www.realestateleasing.cz

Branches and representative offices - Europe

Germany
RBI Representative Office Frankfurt
Mainzer Landstrasse 51
60329 Frankfurt am Main
Phone: +49-69-2992 1918
Fax: +49-69-2992 1922

France
RBI Representative Office Paris
9-11, Avenue Franklin D. Roosevelt
75008 Paris
Phone: +33-1-4561 2700
Fax: +33-1-4561 1606

Malta
Raiffeisen Malta Bank plc
52 “Il Piazzetta” Tower Road
Sliema SLM 1607
Phone: +356-2260 0000
Fax: +356-2132 0954

UK
RBI London Branch
10, King William Street
London EC4N 7TW
Phone: +44-20-7929 2288
Fax: +44-20-7933 8099

Sweden
RBI Representative Office Nordic Countries
Drottninggatan 89
P.O. Box 3294
10365 Stockholm
Phone: +46-8-440 5086
Fax: +46-8-440 5089

Branches and representative offices – Asia and America

China
RBI Beijing Branch
Beijing International Club 200 2nd floor
Jianguomenwai Dajie 21
100020 Beijing
Phone: +86-10-653 23388
Fax: +86-10-653 25926

RBI Representative Office Hong Kong
Unit 2106-08, 21st Floor,
Tower One, Lippo Centre
89 Queensway, Hong Kong
Phone: +85-2-2730 2112
Fax: +85-2-2730 6028
RBI Representative Office Xiamen
Unit 01-02, 32/F, Zhongmin Building
No. 72 Hubin North Road
Xiamen
Fujian Province
361012 China
Phone: +86-592-2623 988
Fax: +86-592-2623 998

India
RBI Representative Office Mumbai
803, Peninsula Heights
C.D. Barfiwala Road, Andhere (W)
400 058 Mumbai
Phone: +91-22-2623 0657
Fax: +91-22-2624 4529

Korea
RBI Representative Office Korea
Leema Building, 8th floor
146-1, Soosong-dong
Chongro-ku
Seoul 110-755
Phone: +82-2-398 5840
Fax: +82-2-398 5807

Malaysia
RBI Labuan Branch
Suite No. 28.02, Level 28
Johor Bahru City Square Office Tower
106-108 Jalan Wong Ah Fook
80000 Johor Bahru
Phone: +607-291 3800
Fax: +607-291 3801

Singapore
RBI Singapore Branch
One Raffles Quay
#38-01 North Tower
Singapore 048583
Phone: +65-6305 6000
Fax: +65-6305 6001

USA
RB International Finance (USA) LLC
1133, Avenue of the Americas, 16th Floor
10036 New York
Phone: +01-212-845 4100
Fax: +01-212-944 2093
http://usa.rbinternational.com
RBI Representative Office New York
1133, Avenue of the Americas, 16th Floor
10036 New York
Phone: +01-212-593 7593
Fax: +01-212-593 9870

Vietnam
RBI Representative Office Ho Chi Minh City
6 Phung Khac Khoan Street,
Room G6
District 1, Ho Chi Minh City
Phone: +84-8-3829 7934
Fax: +84-8-3822 1318

Raiffeisen Zentralbank AG

Austria
Am Stadtpark 9
1030 Vienna
Phone: +43-1-26216 0
Fax: +43-1-26216 1715
www.rzb.at

Selected Raiffeisen specialist companies

F.J. Elsner Trading Gesellschaft m.b.H.
Am Heumarkt 10
1030 Vienna
Telefon: +43-1-79 736 0
Fax: +43-1-79 736 9142
www.elsner.at

Kathrein Privatbank Aktiengesellschaft
Wipplingerstraße 25
1010 Vienna
Phone: +43-1-53 451 239
Fax: +43-1-53 451 233
www.kathrein.at

Raiffeisen Centro Bank AG
Tegetthoffstraße 1
1050 Vienna
Phone: +43-1-515 20 0
Fax: +43-1-513 43 96
www.rcb.at

Raiffeisen Investment Aktiengesellschaft
Krugerstraße 13
1015 Vienna
Phone: +43-1-710 5400 0
Fax: +43-1-710 5400 169
www.raiffeisen-investment.com

ZUNO BANK AG
Am Stadtpark 3
1030 Vienna
Phone: +43-1-71707 2691
Fax: +43-1-71707 762691
www.zuno.eu

Segment reports

Corporate Clients

(in EUR thousands)	12/2011[1]	12/2010[2]	12/2009	12/2008	12/2007	12/2006	12/2005
Net interest income	96 870	72 636	68 141	60 180	48 111	38 991	32 345
Net provisioning	(11 152)	(33 318)	(23 186)	(19 990)	(7 428)	(10 046)	5 272
Net interest income after provisioning	85 718	39 318	44 955	40 190	40 683	28 945	37 617
Net income from commission and trading	24 645	19 252	17 636	35 601	33 565	28 375	26 740
Operating expenses	(45 545)	(32 542)	(33 774)	(37 073)	(32 883)	(29 606)	(25 364)
Profit before tax	**64 818**	**26 028**	**28 817**	**38 719**	**41 365**	**27 714**	**38 994**
Cost/Income ratio	37.49%	35.41%	39.37%	38.71%	40.26%	43.95%	42.93%

Note: Large & Mid Market corporates

(1) Due to a change in the administration of small enterprises with a yearly turnover up to EUR 3,3 mil. a change in the reporting had been made since 2011 - a part of small enterprises has been moved from the segment retail customers to the segment corporate customers. In a year-on-year comparison this caused a decrease in retail and a growth in the corporate segment.

(2) In the results of the year 2010 a retroactive change has been made in the volume of operating expenses, in line with the methodology valid since 2011 (shift of VAT from other operating result to operating expenses). This change has affected also profit before tax and Cost/Income ratio. Figures of older periods are shown according to the original methodology.

Tatra banka pays individual attention to corporate clients by way of relationship managers and via eight Corporate centers. These special centers are located in the most important regions of Slovakia and together with sales representations make up a network of 17 outlets for clients in the SME segment. For large corporate clients, customer care is concentrated at the Bratislava headquarters of the bank. The highly professional service for companies from a wide range of sectors is provided by a total of 153 experts in corporate business who are in direct contact with clients and 49 product specialists who are responsible for processing client requests in the bank.

Large corporate clients

In the segment of large corporate clients, results were influenced by the global situation on the financial markets and by the ongoing cautious approach of companies to making new investments. Compared with the previous year, however, Tatra banka registered stronger growth in assets and a market revival, especially in the first half of the year.

Compared with the previous year, assets grew by 7.6 per cent, whereby the chief priority was to maintain the quality of the loan portfolio. New loans went especially to the energy sector, agri-financing, infrastructure, increasing existing lines and partially also to the area of property financing.

In the segment of corporate clients Tatra banka enjoyed a 2.6 per cent growth in deposits, with a partial change to their structure in favour of current accounts. Following adoption of the euro, the natural outflow of deposits continues with a greater concentration of cash management operations to the treasuries of parent company head offices abroad.

Revenues were slightly above the projected level, rising by 8.3 per cent compared to 2010. The largest share in revenues continues to be Net interest income, while stronger growth was seen in fees and revenues from treasury operations.

The bank devoted special attention during the year to monitoring the loan portfolio, while successfully maintaining quality in the segment. The total volume of non-performing loans was in line with expected development.

The overall improvement in the economic environment produced new projects and business opportunities for incoming foreign investors, especially in the automotive industry, renewable energy and agriculture. In 2011 Tatra banka managed to conclude the largest syndicated deal on the Slovak market with a value of EUR 180 million.

Special care was also given to foreign clients by our service team of the International Clients Department, with communication in English, German, French and even Korean. This ensures truly professional support in serving foreign investors entering the Slovak market, clients already operating on the market, or local companies looking to expand to foreign markets. The added value is the so-called “first-stop entry point”, thanks to which the department guarantees the proper placement of foreign investors to the local market, and setting the conditions of bank co-operation to copy the business profile and needs of the particular client. The bank tries to tailor-make solutions to fit the client and so contribute to improving the process of implementation on the local market and to the successful launch of their business objectives.

The bank actively co-operates with sister banks from the expansive network of the Raiffeisen Bank International group, which produces a tangible synergy for corporate clients that supports their business. The bank accompanies its clients on different markets via a rich array of contacts with partner banks operating all over the world.

SME segment

Small and Medium-sized Enterprises (SME)

The segment of clients administered by our Corporate Centers was subject to several changes in 2011, with the client and customer satisfaction at the very core of these changes.

The most fundamental of these was a change to the client care service in the area of credit, with the tasks linked to processing loan requests being moved from product specialists to a single contact person – a relationship manager. The aim of this change was to switch more from quantity to quality, and proof that the bank had taken the right steps could be seen also in a customer satisfaction survey carried out at the end of 2011. Our key priority was to understand the needs of clients and devote more time to them. This also concerned the new business model, part of which was to move those clients with a turnover under EUR 3.3 million to the care of the branch network. In principle this means that the SME segment was divided, with only medium large companies being left under the care of Corporate Centers, and so the total number of clients there dropped by almost half.

As Tatra banka has long been perceived as the best corporate bank in Slovakia, alongside the adoption of the new business model Tatra banka also had to implement new technologies. That is why at the beginning 2011 the bank implemented a new information system in the segment of corporate clients - operational CRM. This system brings together all information about clients from the many systems in the bank to a single place. The aim is to allow relationship managers to work more effectively with information about clients. This project is one of the most extensive to be seen in the segment in recent years. Tatra banka continued with successful technological innovations in respect of Corporate Centers also in the second half of the year, when it introduced a mobile office standard with related changes to the sales culture. Every employee working for this segment was equipped with technologies that make it possible for them to communicate with the bank and bank systems wherever they are, giving them flexibility in resolving even the most complex requests of the client. The introduction of innovations and the change to the business model naturally reflected in higher costs, but it is a good investment into client satisfaction.

These and many more changes merely confirm that Tatra banka has devoted special attention to this segment for a long time. Tatra banka provides its products and services to clients of this segment by way of nine Corporate Centers, which thanks also to the many sales representations cover all key regions of Slovakia, with 114 workers serving over 5,000 clients.

In 2011 the Slovak market enjoyed an economic revival, but the debt crisis in the eurozone countries deepened at the same time. Even though the complex economic situation affected also the Slovak market, we still managed to increase revenues by almost 5 per cent year-on-year (to reach EUR 63 million).

Tatra banka also approached the provision of loans in a prudent way in 2011, while one of the key priorities continued to be monitoring and minimising credit risk. The rising demand for loans reflected in a 10 per cent year-on-year hike, which in this segment means a growth of EUR 118 million. A mild 3 per cent year-on-year drop was registered on the side of liabilities (down EUR 25 million).

The number of clients at Corporate Centers increased in 2011 by 85 new customers, by which the bank reaffirmed its strong position in the SME segment.

Project financing

The year 2011 was a breakthrough year for project financing, especially in terms of the strong growth in the portfolio. The reason for this was substantial growth in the number of well-prepared projects from investors, particularly in the field of renewable energy sources. The total volume of the portfolio reached the magic threshold of EUR 1 billion in drawn loans for the first time ever, with a growth of EUR 267 million compared to December 2010. With these results, Tatra banka's project financing has reaffirmed its position as leader in the financing of real estate and energy projects.

Overall, there was a slight drop in real estate financing, but the volume of drawn loans still comes to EUR 750 million. An exception to this was growth in the segment of retail space. Considering the progress made in construction, larger loans started to be drawn, with contracts signed at the end of the previous year. These were joined in the reported year by several smaller projects in regions. In general the retail segment therefore enjoyed 22 per cent growth in the volume of drawn loans. There was no growth in the segments of office space, industry and logistics, housing and hotels, which reflects the economic situation in Slovakia and demand from the side of investors.

In the financing of renewable energy projects the bank registered a sharp increase in drawn loans to over EUR 300 million. This concerned projects for financing small hydroelectric, biogas, photovoltaic, biomass and waste power plants. In the first half of 2011, overall performance was boosted chiefly by the financing of photovoltaic projects. One of the successes of last year in this sector was the financing of innovative projects for conversion to ecological renewable energy in waste management.

In terms of structure, Tatra banka perceives its portfolio of projects as well balanced. In 2012 it wants to continue building up the diversified portfolio of projects in sustainable quality and expand the existing palette of products to include a new energy source. From the perspective of project financing, however, this will depend on development on the financial markets and the availability of long-term sources of refinancing.

Trade financing

In 2011 Tatra banka saw a slight growth in drawn loans for support of export, while still concentrating on the quality of service and a full offer of products and services for exporters. Trade and export financing supported some key energy projects in Central and South America. Tatra banka supported export financing in direct form with EUR 47 million, and indirectly via pre-financing of projects with EUR 31 million. The bank therefore continues to confirm its leading position in the financing of investments abroad with insurance of EXIMBANKA SR.

Financed territories include almost all countries of the European Union and many more, such as Azerbaijan, Belarus, China, Egypt, Cuba, Kazakhstan, Moldavia, Russia, Turkey, Ukraine and Venezuela.

Considering the current situation on the financial markets, Tatra banka anticipate increased interest of clients in 2012 in financing with the support of EXIMBANKA SR.

Despite the growing competition, Tatra banka was evaluated for the 3rd time by the international magazine Global Finance as the Best Trade Finance Provider.

Agri-financing and EU projects

In 2011 Tatra banka maintained a market share of over 20 per cent in the financing of the agri-business, which reinforced the brand Agrifinance (AgrofinancovanieTB) and the position of the bank with a strong representation in the agriculture sector, as well as leader in terms of credit in the banking sector for agriculture and the food industry.

In Tatra banka an independent specialised team is devoted to this area, focusing primarily on financing for farmers, but also EU projects from various fields and last but not least, financing of the municipal sphere. In addition to expert areas in credit products, the year 2011 was also focused on process management with the aim of increasing the effectiveness, quality and speed of the loan process.

Loan sources went into operational and so-called subsidised financing (direct payments by area, environmental support or other subsidies paid to Slovak farmers based on the common agricultural policy of the EU). The situation in the provision of investment loans and loans for the purchase of agricultural equipment also positively developed, and Tatra banka enjoyed significant growth in the area of commodity financing.

An integral part of building up the position of Tatra banka on the market of agri-loans is active dialogue with the professional community, co-operation with state authorities and presentation in the media and at expert conferences. In 2011, for the sixth time Tatra banka was the general partner of the NAJ awards for the best breeders and growers.

Letter of Credit and Guarantees Department

Tatra banka successfully continued in 2011 with the provision of letters of credits, documentary collection and bank guarantees.

With letters of credit and documentary collection, the bank managed to retain an almost 60 per cent share on the banking market in terms of the volume of advised letters of credits and an almost 30 per cent share in the volume of issued letters of credits. Most deals transacted by these products were with European countries (Germany, Italy, Slovenia), countries of Asia (China, South Korea, India) and with Latin America (Cuba, Venezuela).

In terms of bank guarantees, Tatra banka maintained first place in the number of existing guarantees and in the volume of new and existing guarantees on the Slovak banking market also in 2011. The most numerous group of new guarantees in 2011 comprised guarantees for public tenders for towns and villages (financing development from EU structural funds), guarantees for electricity traders and also guarantees for export contracts of Slovak companies. In 2011 the department, in co-operation with the branch network of Tatra banka, started to serve also these products to the Small Business segment.

Factoring and financing receivables

The year 2011 saw substantial growth in the turnover of pre-financed receivables in the form of factoring, when Tatra banka registered a record growth of 71 per cent to EUR 374 million, which is also the highest turnover in history. The market share of Tatra banka within the Association of Factoring Companies rose from 24.4 per cent at the end of 2010 to 34 per cent in 2011. This is the best market position ever and confirms the position of Tatra banka as the largest factoring company on the market, a position the bank has enjoyed since 2008.

The position of market leader was confirmed by Tatra banka also by managing the first syndicated factoring transaction in Slovakia, and also within the Raiffeisen Bank International group.

In terms of the structure of the client portfolio, the biggest share of the turnover came from medium-sized companies with 62 per cent, followed by small businesses with a 21 per cent share, then large companies with a share of 17 per cent. Non-regressive factoring (without records) accounted for 11 per cent of total factoring turnover.

Treasury and capital market products

The basic set of treasury products offered by Tatra banka comprises foreign exchange products (especially FX spots, FX forwards and FX options), interest rate products (especially dealing deposits, interest rate swaps and interest rate options) and commodity products. The main objective of these products is to make it possible for our corporate clients to manage their foreign cash liquidity and the foreign exchange, interest rate and commodity risks that they encounter in their business activities.

The past year reaffirmed the strong rise in interest of clients in hedging interest rate risks, primarily because of the higher volatility of interest rates on the financial markets. This manifested in a threefold hike in the number of deals compared with the previous year, whereby in terms of type of hedging, the most dominant was simple hedging in the form of an interest rate swap. A stable place in the bank's offer was occupied by the new product – insurance of maximum floating interest rate on loans, which the bank started offering to clients at the end of last year.

The number of forward FX deals increased by 17 per cent over the previous year. The number of FX spot deals was roughly on the same level as the previous year.

Last year Tatra banka also registered strong growth in the number of people using the electronic platform i:deal. Compared with 2010, clients made 23 per cent more dealing deposits through this commercial channel, and in the case of foreign exchange spots the growth was 18.5 per cent.

The hedging of commodity risks is still trying to find its place among Tatra banka clients. In terms of number and volume, it represents the smallest group of treasury products, whereby compared to last year it was roughly on the same level.

In the previous year, co-operation with the parent bank RBI also intensified with the aim of providing Tatra banka clients with a broader range of products, especially in the area of structured products and exotic derivatives.

Retail clients

(in EUR thousands)	12/2011[1]	12/2010[2]	12/2009	12/2008	12/2007	12/2006	12/2005
Net interest income	168 977	187 436	176 312	166 295	140 503	117 218	106 690
Net provisioning	(3 118)	(11 096)	(28 626)	(23 356)	(10 981)	(6 371)	(14 327)
Net interest income after provisioning	165 859	176 340	147 686	142 940	129 521	110 847	92 362
Net income from commission and trading	80 836	85 540	73 961	112 464	100 020	84 062	82 775
Operating expenses	(157 505)	(166 304)	(153 977)	(171 446)	(153 331)	(127 801)	(126 241)
Profit before tax	**89 190**	**95 576**	**67 670**	**83 958**	**76 211**	**67 108**	**48 896**
Cost/Income ratio	63.05%	60.92%	61.52%	61.50%	63.75%	63.49%	66.63%

Note: Private Individuals, Small Enterprises, Micro companies, Private banking, Micro companies and Special customers

(1) Due to a change in the administration of small enterprises with a yearly turnover up to EUR 3,3 mil. a change in the reporting had been made since 2011 – a part of small enterprises has been moved from the segment retail customers to the segment corporate customers. In a year-on-year comparison this caused a decrease in retail and a growth in the corporate segment.

(2) In the results of the year 2010 a retroactive change has been made in the volume of operating expenses, in line with the methodology valid since 2011 (shift of VAT from other operating result to operating expenses). This change has affected also profit before tax and Cost/Income ratio. Figures of older periods are shown according to the original methodology.

In connection with the development of information technologies, even though the number of clients preferring electronic communication with the bank is rising constantly, during the course of 2011 interest of clients who use personal contact with bank staff at 130 branches of Tatra banka all over Slovakia remained stable. In addition, clients had the chance to receive expert advice and services in resolving their housing by way of the specialised Centers of Living (**Centrum** bývania[TB]).

	2010	2011
Number of branches	130	128
Centers of Living	4	2
Center of Investment	1	1

Tatra banka endeavours also in this client segment to ensure that its long established relations with clients, and the establishment of new relations, are in line with its Vision – to be perceived as the strongest and most attractive bank with the distinction of the highest standard of service. Although the quality of the branch network can be supported by the use of a high standard of technical equipment (such as the use of unique ID scanner, or digitalised signatures), the true alpha and omega of the network branch still rests in our personal approach and the professional communication of every member of our staff.

Development remains a priority

Over the course of 2011 Tatra banka invested strongly into the expert and professional development of its workers. In the 20 years of its existence, Tatra banka has confirmed that continual education, communication and discussion with colleagues from the "front line" not only ensures the same standard of provided services and advice throughout the whole branch network, but also has the secondary effect of producing new initiatives for further improvement and innovation. Whatever benchmarks are set, an ongoing priority of our efforts is to understand the financial needs and wishes of clients, with the aim of forming them into real banking services.

Premium Banking

The efforts of Tatra banka produced the effect of increased trust again not just from individual clients, but also more than 45,000 affluent clients under the personal care of personal bankers operating in the branch network. Their trust manifested in a growth in primary deposits under the administration of Premium Banking during the course of last year by more than 22 per cent. In addition to responsible asset management, extended to include the issue of mortgage bonds, the Tatra banka promissory note and the second issue of the Anti-inflation deposit (**Protiinflačný** vklad[TB]), the most used benefits included the special interest rates for loan products, higher than average limits on credit cards and, of course, the possibility to keep a current account without a fee, which is currently utilised by almost 70 per cent of Premium Banking clients.

In respect of financial planning, upon effective administration of client funds personal bankers extended the range of standard tools to include Premium book and Investment profile analysis of the client – a Savings calculator, which visualises and simulates the future of the client in terms of specific purpose savings and pension savings, with the aim of ensuring the required living standard of our clients also when they are retiring. These tools were updated on a regular basis with the aim of reacting to a change in the needs or risk profile of the client, and so to adapt the optimum spread of assets and liabilities. Extending the regular training of personal bankers to include product, macro-economic and communication areas, helps Tatra banka provide care and advice on the kind of level that its premium clients demand.

Private banking

The volume of client assets under the administration of Private Banking exceeded the level of EUR 1.48 billion with a total of 3,253 clients. By these indicators, Private Banking continued to hold strong its position as leader in the Private Banking segment in Slovakia. The year 2011 was also a year of several innovations in Private Banking.

Controlling risk in the client portfolio continued to represent a priority in this area, together with maximising the communication of this risk during the year. Tatra banka managed to implement successfully the product **Wealth** management[TB]. Client funds were split into four separate portfolios, differing in terms of the selected risk management profile. This division increases the level of control over risk in client portfolios.

The bank also focused on increasing the quality of the client service in 2011. Tatra banka clients were the first in Slovakia to have the option of using the self-service secure safe with access seven days a week, 24 hours a day. Clients can use the safe also for safekeeping works of art.

The year 2011 was a record year also in the sale of investment gold. The volume of sold investment gold in 2011 alone exceeded USD 40.4 million, while the total volume since it started being sold by Private Banking in Tatra banka to the end of 2011 amounted to USD 69.7 million. These figures confirm the position of our Private Banking as the leader in the sale of investment gold in Slovakia.

Various new steps were taken in regions of Slovakia in 2011. In Žilina, for instance, Private Banking moved to new premises in Remeselnícky dom (House of Artisans). Private Banking clients can make cash operations at these new premises, with the range of services in Žilina also extended to include the rental of safe deposit boxes.

Extensive reconstruction was carried out in Košice with the aim of extending the services of Private Banking to include the option of making cash operations or renting safe deposit boxes.

Private Banking expanded its range of services also at the Center of Investment (**Centrum** investovania[TB]) in Aupark shopping centre in Bratislava, which now offers private banking services all seven days of the week. The sale of investment gold to a broader spectrum of Tatra banka clientele was also implemented here.

The core provider of private banking products in 2011 was once again the company Tatra Asset Management, with the volume of Private Banking assets placed in its funds exceeding EUR 245 million. In 2011 other funds specific for Private Banking clients were established in TAM - PrivateDeposit Fund and DynamicAlpha Fund. The range of funds on offer is complemented by those of Raiffeisen Capital Management.

Private banking of Tatra banka continues in the philosophy of open product architecture, which is proven by the number of product types present in client portfolios, which to the end of the year exceeded the threshold of 3,800 products.

In 2011 Private Banking clients could utilise yet another service - Art consulting. In co-operation with experts and enthusiasts from among art collectors, we prepared a catalogue of works from Slovak and Czech contemporary artists, artists from the older fine art generation and from the middle-aged and young generations of contemporary fine artists. The aim of this project is not just to present clients with an artistic insight into this passionate pastime, but also to enlighten them about the financial aspect.

Deposit products, payment cards, loans

Current and term deposit accounts, insurance

The year 2011 was a turbulent one not just for European countries, but also for the common consumer, with uncertainty prevailing throughout the year, especially at the year end. In such an environment, the importance of traditional values increased, which is linked also to a growth in the level of savings. Tatra banka reacted during the year to the demand of clients to appreciate their money and to bring them financial comfort through a broad palette of standard and innovative products and services.

Together with the rising level of uncertainty on the markets, the importance of classic savings in the shape of term accounts and structured deposits also grew in importance in 2011. Thanks to the rising level of savings, Tatra banka achieved a 7.34 per cent growth in primary deposits from individuals, which is an excellent result considering the slowed economic performance.

Tatra banka provided clients with a broad range of saving options, thereby reacting to the variability in client preferences while also ensuring attractive appreciation of their money.

In the spring, clients could make use of the option to purchase in the limited-volume issue of Tatra banka mortgage bonds. The issue met with a positive reaction from clients from the moment it was launched.

During the summer months, as many as 48,000 clients utilised the option in Tatra banka to have their deposits appreciated in a 2-year term account under highly attractive conditions. The volume of term accounts in this period increased by 30 per cent, thereby strengthening the market position of Tatra banka in this area.

In the autumn, Tatra banka also came up with an innovative offer in terms of the interest yield from savings, when the first issue of Tatra banka bonds was launched with the population in mind.

The year 2011 ended with an innovation in the area of structured deposits and continuation on development of the Anti-inflation deposit (**Protiinflačný** vklad[TB]). In addition to a fixed 5 per cent yield for the first year, clients have their investment protected against inflation measured by the Harmonised Index of Consumer Prices of the Eurozone, which is published by the EU's statistical arm Eurostat.

The service package **Tatra Personal**[TB] has become very popular among clients with its unique attractive card designs and special fees for children, students, graduates and married couples. Thanks to the service package **Tatra Personal**[TB], the bank is successfully covering the needs of its clients, segmented already from childhood, and so contributes to educating the young about how to handle money. In addition to the comfortable use of everyday banking services, the **Tatra Personal**[TB] service package offers also some interesting benefits like the innovative and clear Internet banking, the Saving system that lets clients put money aside progressively, **Spending** report[TB] that gives clients an overview of their expenses, Optional drawdown to account, and the possibility to take out travel insurance.

Regarding retail insurance products, clients increased their travel insurance risk coverage on debit cards, at an unchanged insurance premium, making travel insurance an even more attractive added feature to our payment cards.

In 2011 Tatra banka in co-operation with the insurance company Uniqa started offering a product for businesses in the shape of director and officer liability insurance. This product is provided as additional security to business loans (**Business**Úver[TB]) and Tatra banka offers it at unbeatable conditions.

Loans

The rising trend in the volume of new loans continued also in 2011. The beginning of the year was influenced by low interest rates, which clients utilised not only by taking out new loans, but also by refinancing existing ones. Under the influence of anticipated negative economic development, to the end of the year refinancing rates increased, while the speed of granting housing loans slowed.

In 2011 the bank devoted greater attention than in the previous year to supporting the sale of retail products. The bank raised its exposure in the media and introduced several positively received innovations in the provision of products, such as:

- accelerated repayment of loans with real estate collateral – benefit, thanks to which clients could pay off their mortgage faster and so save on interest,
- refinancing loan with real estate collateral for clients who want a more advantageous alternative to their existing loan,
- Non-purpose loan Classic (**Bezúčelový** úver[TB] Classic) available non-stop – pre-approved any-purpose loan available at any time either at a branch or using Internet banking, with the option for clients to set the loan up as they wish.

From the perspective of retail loan sales volume, the past year was the second most successful in the history of the bank. The bank's market share increased in all loan segments, with the strongest growth seen in home equity loans.

To the end of 2011 individual products accounted for the following volumes in the loan portfolio – loans secured by real estate 83 per cent, Non-purpose loan Classic 10 per cent, No-purpose loan Garant 1 per cent (**Bezúčelový** úver[TB] Garant), credit cards and Optional overdraft 6 per cent.

In 2011 the bank granted a total of 3,300 home equity loans worth EUR 150.9 million and another 7,855 housing loans amounting to EUR 426.1 million, of which 2,519 loans worth EUR 85.8 million were entitled also to the state bonus for the young. Compared to the previous year, the volume of new loans secured by real estate granted to private individuals increased by as much as 46 per cent, while the whole loan portfolio enjoyed growth of 14 per cent.

		2010	2011	Change
Home equity loan	Quantity	2 584	3 300	+28 %
	Volume (EUR mil.)	90.1	112.2	+25 %
Housing loans	Quantity	4 592	7 855	+71 %
	Volume (EUR mil.)	277.8	426.1	+53 %
*of which loans with SB**	*Quantity*	*711*	*2 519*	*+254 %*
	Volume (EUR mil.)	*28.0*	*85.8*	*+206 %*
Total	Quantity	7 176	11 155	+55 %
	Volume (EUR mil.)	367.9	538.3	+46 %

* loans subject to the state bonus for young people

No-purpose loan Classic fulfilled its expectations in 2011 as the total volume of granted loans for the year soared to EUR 130.4 million, spread over 32,816 loans, which represents a 55 per cent growth in the volume of granted loans compared to the previous year. This was made possible chiefly thanks to our activities focusing on sales support and thanks to a successful advertising campaign at the close of the year, which communicated a unique benefit on the loans market with the "We will pay your first repayment!" campaign.

	2010	2011	Growth
Qantity	18 530	32 816	77 %
Volume (EUR mil.)	83.9	130.4	55 %

In the segment of any-purpose loans, the product portfolio was complemented by the any-purpose loan secured by funds. No-purpose loan Garant was provided to over 2,500 clients in 2011, with the loan volume coming to EUR 22.3 million.

	2010	2011	Growth
Qantity	3 349	2 574	-23 %
Volume (EUR mil.)	30.1	22.3	-26 %

Payment cards

Payment cards continued to enjoy a growing trend also in 2011, when the use of cards increasing faster than in the previous year. In terms of the volume of transactions, the tempo of growth doubled (growth of 9.5 per cent), while in the number of transactions the bank maintained an almost 13 per cent growth trend.

When looking at purchases made by payment cards in shops, these increased the fastest, when the number of transactions rose by 19 per cent and the volume by 15 per cent. From this it is clear that clients are using payment cards to an increasing extent, also for small value transactions. One reason for this is the motivation of using the fast contactless payment method. In total, clients of the bank used their payment cards for purchases and cash withdrawals worth EUR 3 billion.

Current account debit cards, used in the past mostly for making cash withdrawals, are growing in popularity also for making purchases. Use of the cards to pay for goods in shops accounted for one third of the total volume and as much as two thirds in terms of the number of transactions. Credit cards have always had a strong position in this respect, being used chiefly for making payments, as only one tenth of all transactions are cash withdrawals.

The process of replacing payment cards for chip cards culminated in 2011 with the replacement of the very last non-chip credit card in November. This means Tatra banka clients now enjoy the most secure technology available in the area of payment cards. All debit cards and credit cards of Tatra banka fully comply with the required and recommended standards of SEPA.

After the contactless functionality for swift payment was made available in the spring also for MasterCard payment cards, the whole portfolio of the cards Tatra banka VISA and MasterCard are now issued as “chip&PIN&contactless”. A contactless payment takes less than five seconds and so is much quicker than a classic payment by card or cash and clients don’t have to enter a PIN code or sign any receipt.

Tatra banka is doing well in maintaining its leading position with over a 40 per cent market share in the use of credit cards. Clients responded well to the successful summer holiday offer of a financial benefit for making payments by card, thereby increasing sales and the use of cards. From the summer, in addition to 100 per cent discount on the credit card fee, clients could also get a 50 per cent discount thanks to the extended Reward programme (Program **odmeňovania**[TB]), which also met with a positive response from clients.

Just as every year, in 2011 Tatra banka once again managed to produce a masterpiece in the shape of the Limited edition credit card devoted to Slovak writer Ľubomír Feldek.

The Gift card (**Darčeková** karta[TB]) also continued to enjoy success among clients, who could choose during the year from several attractive card covers. As a present from the bank, the card accompanied also the sale of Non-purpose loan[TB] Classic (**Bezúčelový** úver[TB] Classic).

Small Corporate Clients

In 2011 Tatra banka confirmed it rising interest in the Small Corporate Clients segment by shifting the care for small corporate clientele with sales revenue under EUR 3.3 million to the branch network of Tatra banka. This step took Tatra banka even closer to its clients. Tatra banka extended the number of business advisors, specialists in corporate advice, with the aim of meeting the demands of clients to a high standard.

This year was marked by a huge effort to kick-start loans for small companies again, after years of stagnations brought on by the financial crisis. This was boosted by an advertising campaign that focused chiefly on reminding clients that Tatra banka supported the growth of companies and their business thanks above all to loans.

Revival of the Small Corporate Clients segment and increased demand for financing the development of their business activities reflected in a growth in the volume of granted loans. In 2011 Tatra banka provided 34.5 per cent more loans than in 2010. Tatra banka managed to achieve this excellent result thanks mostly to financing provided via SE loans and **Business**Loan[TB]**Expres**.

Almost EUR 61 million in financing was provided in the form of the very popular product **Business**Loan[TB]**Expres** (loan without property collateral), which meant a 38 per cent growth compared to the previous year. At the same time, it was simplified thanks to the launch of automatic renewal of overdraft facilities with this product, which reflects in a lower level of bureaucracy while saving the valuable time of clients. The success of **Business**Loan[TB]**Expres** was boosted to a significant extent by improvement in the sales campaign for the product, which introduces the option of financing for small businesses with a one year history at Tatra banka.

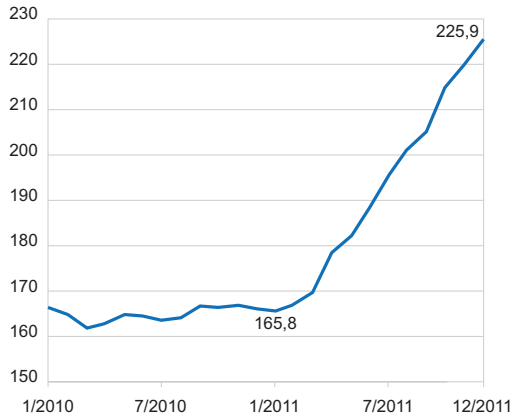
The new product **Business**Loan[TB]**Hypo**, enabling the provision of loans up to EUR 200,000 to micro clients secured by property collateral, accounted for 12.7 per cent of the total volume of granted loans and became a firm part of the offer for micro clientele.

At the end of the year this was strongly affected by a drop in demand of companies for loans due to growing uncertainty about the future development of the strongest economics and the demand for products. This development will probably continue also at the beginning of 2012.

On the other hand, just like every year, the end of 2011 was associated with a growth in deposits of small corporate clientele caused by culmination of the Christmas season and the New Year and in an effort to settle liabilities towards business partners.

Segment results	2010	2011	Change	% change
Number of clients	103 999	106 159	2 160	2.1 %
Number of clients with loan	8 117	8 944	827	10.2 %
Loans to customers (in EUR ths)	166 626	224 121	57 495	34.5 %
Deposits from customers (in EUR ths)	974 798	994 657	19 859	2.0 %
Gross income (in EUR ths)	52 683	56 136	3 453	6.6 %

Loan drawing – legal entities, retail
(in EUR mil.)



Internet banking, DIALOG, acceptance of payment cards

In 2011 Tatra banka underwent the biggest change in **Internet** banking[TB] it had seen in 11 years, when on 26 October the new beta version of Tatra banka third generation **Internet** banking[TB] was made available. The design and user-friendliness played a crucial role in this change, resulting in an elegant, attractive and easy to use application that simplifies and speeds up work with routine electronic banking tasks. The complete overhaul of the control and design should produce a new experience also from the perspective of client financing. This requirement is underlined also by the ever-present visualisation of client data within individual products. Clear colourful graphs add a new dimension to the insight of the client into their portfolio of products in the bank.

Internet banking[TB] confirmed its importance as a key service distribution channel also by a continual 10 per cent growth in the number of executed domestic transactions, making it the most used distribution channel of the bank in this area. In November the direct sales campaign for any-purpose loans via **Internet** banking[TB] was redesigned, giving clients included in the target groups the chance to request and draw loans up to a predetermined limit non-stop. A special calculator in **Internet** banking[TB] helps clients select the loan amount they are requesting or the form of repayments, and all other parameters are then calculated automatically. On business days, the loan is processed within a few minutes and the drawn funds are transferred to the client's current account. The offer of this loan is displayed permanently on the homepage under the list of current accounts. Clients therefore know that they can get additional funds at any given moment.

Electronic banking continued in the provision and development of innovations from 2010 also in 2011 – apart from the completely new **Internet** banking[TB], other versions of the successful **Internet** banking[TB] application were launched for iPhone. In December clients were also presented with the new Internet bankingTB application for Android devices. The functionality of the same mobile application can therefore be used also by the most numerous group of smartphone users among Tatra banka clients. In the first month alone the application was downloaded more than 5,000 times.

The conversion of clients to the Card and Reader tool culminated at the end of 2011. In addition to active conversion, concerning the security of the client when logging in and working with **Internet** banking[TB], consideration was also given to the comfort enjoyed by clients of electronic banking. This is why Tatra banka developed the mobile application **Reader**[TB], which has the same functionality as the **Card and reader**[TB] device, but which is accessible directly from a mobile phone. Clients therefore gain the kind of comfort they had when receiving SMS codes while gaining independence from the receipt of SMS in terms of signal coverage and the time for the login code to be received. At the end of the year this application was accessible also to clients with normal mobile phones supporting the Java MicroEdition platform and in February 2012 Tatra banka has prepared a version for Android. The version for iPhone together with other major improvements in the speed and security of working with **Internet** banking[TB] are prepared for the near future.

DIALOG contact centre

In 2011 the DIALOG contact centre was among the most important distribution channels in the retail banking segment once again.

As part of the expansion of its services, in 2011 DIALOG started providing clients with a new service Tatra **Chat**[TB], which lets bank clients and non-clients communicate with the bank using chat with DIALOG operators 24 hours a day, 7 days a week. So far the scope of communication is limited to information without the possibility of making active operations requiring client authentication.

New services being provided included those relating to the new mobile banking applications such as **Internet** banking[TB] for iPhone, **Internet** banking[TB] for Android and also the **Reader**[TB] for mobile. This is the result of closer integration of DIALOG services with **Internet** banking[TB].

The DIALOG contact centre also continues actively in its telemarketing activities. In addition to sales of credit cards, to a large extent it was involved in arranging meetings with clients with the aim of consulting mortgages and any-purpose consumer loans with them.

Leader in the acceptance of payment cards

One of the key goals in the area of payment card acceptance was to establish a broad network of sales points with the option of paying by contactless payment cards. By the end of the year, the share of payment terminals with contactless readers accounted for 41.1 per cent of all Tatra banka payment terminals. Expansion of the number of points accepting also contactless payments will continue also in future.

Total turnover from payment cards at commercial partners of Tatra banka came to EUR 1.6 billion, whereby the bank registered an 11 per cent growth over the previous year.

The bank's market share to the end of 2011 reached 42 per cent, meaning Tatra banka kept up the large lead it has had for years over its nearest competitors. The number of transactions increased to 45,558,626, which translates as a growth of 15.7 per cent. The average amount of transaction dropped slightly from EUR 35.5 in 2010 to EUR 34.1 in 2011, but this drop reflects the fact that cardholders are increasingly using their payment cards also for making smaller purchases, with this development boosted also by the new contactless technology.

In terms of the acceptance of payment cards, Tatra banka is trying increasingly to strengthen its position in the field of e-commerce, which it regards as an area with huge potential growth. The service comfortPay was introduced to the market in 2011, providing even more added value in e-commerce for retailers and cardholders alike. It provides a very comfortable way for clients to make payments that recur at regular and irregular frequencies (such as regular fixed fees or recurring purchases of registered users on internet shops).

In 2011 the bank as part of improving the network of ATM dismantled 28 machines that were not so productive, while installing 12 new ATM foremost in shopping centres, taking the total number of ATM in the network to 313. Tatra banka maintained its 3rd place on the ATM market in the Slovak Republic with a 13 per cent share in the number of ATM.

Almost 13 million cash withdrawals were made at Tatra banka ATM, which is a year-on-year growth of 0.9 per cent. The total volume of transactions comprising almost EUR 1.8 billion represents a year-on-year growth of 6.4 per cent.

As part of the modernisation of the ATM network, the bank replaced 75 older machines with new models.

In December 2011 Tatra banka started offering the service DCC (dynamic currency conversion) via its ATM network. This service is intended for foreign holders of payment cards and allows the authorisation and charging of cash withdrawals in their domestic currency. DCC is an innovation on the Slovak banking market, while Tatra banka sees potential for increasing the profitability of the ATM network thanks to this service.

Payment Transactions

In 2011 Tatra banka continued to implement changes that provided clients with more effective and swifter processing of payment transactions.

The bank presented clients with its new Internet banking with modern design and intuitive user-friendliness. The applied technology also represents a unique solution on the Slovak banking market. Corporate clients using the Multicash system appreciate the switch to online processing, which allows them prompter information flow between the client application and Tatra banka.

In addition to changes in distribution channels, in 2011 Tatra banka introduced more effective processing of cross-border payment orders, which produced the benefit of a much shorter time from when the client sends the payment order to it being processed.

Thanks chiefly to its pro-client approach and the launched innovations, the bank kept up its growing trend in the number of processed payment orders. The number of domestic payment transactions increased by more than 6 per cent year-on-year. In the area of foreign payment transactions, the growth in the number of client payment orders was even greater, exceeding 14 per cent.

This can be put down especially to payment orders sent via electronic distribution channels, which account for 90 per cent of the total number of transactions made. Their repeated growth proves that having a modern electronic banking system is essential nowadays, which is why the bank will continue to develop it and so fulfil the wishes of our clients.

Tatra Asset Management

TAM (in EUR mil.)	2009	2010	2011
Total revenues	12.9	14.0	15.1
Profit after tax	2.8	3.4	4.3
ROE	11.4 %	12.3 %	15.3 %

The market of collective investment in Slovakia was affected last year by two main events. The first concerned legislative changes and adoption of a new Act on Collective Investment, which was transposed to the Slovak legal code from the EU Directive on mutual funds (UCITS4 Directive) and which entered into force on 1.7.2011. The second big event was the turbulent development seen on the capital markets in the second half of the year, the outcome of which was a marked drop in the volume of administered assets compared to 2010. Just as badly affected were net sales of open mutual funds, which represented a negative EUR 588 million, and so compared to the EUR 377 million in net sales from 2010 means a huge decline and a turnaround deep into negative figures.

The volume of assets in mutual funds to the end of 2011 dropped to EUR 3.8 billion, which on a year-on year basis translates as a decrease of EUR 727 million, or by almost 16 per cent. The total volume of assets under the management of asset management companies, including assets in individual portfolios and assets in funds for institutional investors, dropped to the end of the year to EUR 5.8 billion.

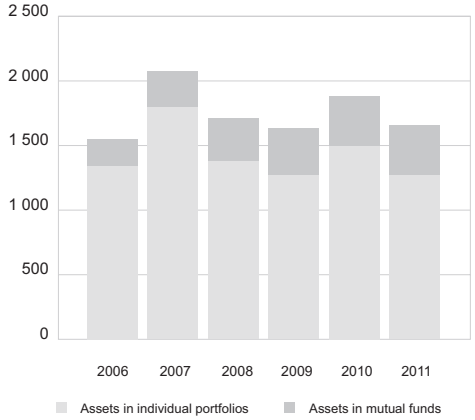
In 2011, net sales of mutual funds dominated only in the category of special funds, specifically in new public special mutual funds as per the new legislation, which generated a net sales volume of EUR 166 million, followed by special real estate mutual funds generating net sales of EUR 148 million. The other categories of mutual funds ended with negative net sales led by money market funds, which ended 2011 with negative net sales of as high as EUR 610 million.

Despite the negative situation on the market, in 2011 Tatra Asset Management (TAM) managed once again to strengthen its position in open mutual funds, by increasing its high market share and widening the gap from its main competitors. Even though TAM registered negative net sales in 2011, which culminated in August due to developments on the financial markets, thanks to a timely response to this development on the markets and the launch of new special mutual funds with a modern investment strategy in the autumn of 2011, TAM managed to reverse the negative trend in net sales. New types of special deposit mutual funds that TAM launched in October 2011 in connection with the new possibilities and limitations of the new Act on Collective Investment, TAM had produced positive net sales to the end of 2011 worth almost EUR 166 million. In total TAM registered negative net sales amounting to almost EUR 201 million, which mirrored the development of the whole market. This timely reaction to development of the situation in collective investment manifested in a growth in the share of TAM on the market of open mutual funds, which increased by 0.4 per cent from the 33.1 per cent at the end of last year to reach 33.5 per cent to the end of 2011.

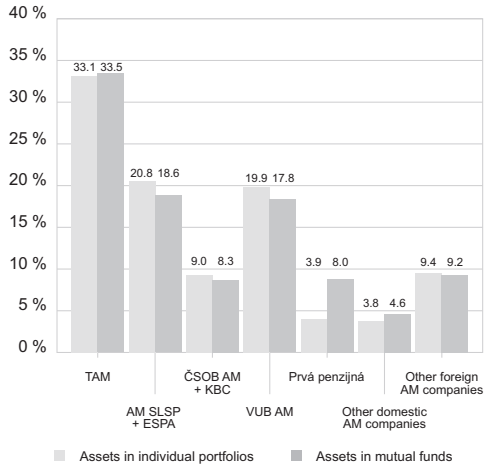
Total gross sales of TAM mutual funds in 2011 came to EUR 499 million and so fell by 15 per cent year-on-year from the EUR 589 million in 2010. The drop in gross sales of TAM mutual funds was negatively influenced by the situation on the financial markets in particular, with the highest sales seen in money market and deposit funds (68 per cent) and in absolute return funds extended to include a new attractive strategy for private clientele, following on from the successful sale of the Smart fund (Smart fondTB, 18 per cent). In 2011 the company generated negative net sales of mutual funds (total sales minus redemption) to the already mentioned amount of EUR 201 million, which meant a negative turnaround from the previous year's positive net sales figure of EUR 158 million, and so a drop of EUR 358 million was seen year-on-year basis.

In 2011, the total volume of assets in TAM open mutual funds was down 15 per cent over the previous year due to the said events, taking it from EUR 1.51 billion in 2010 to EUR 1.28 billion in 2011. Total assets under the management of the company, including individual portfolios, amounted to EUR 1.66 billion to the end of 2011, compared to EUR 1.86 billion in the previous year.

Development of assets administered by TAM
(mil. EUR)



Development of assets administered by TAM



The drop in net sales and the subsequent decline in the volume of managed assets had not a negative effect on revenues of the company in the second half of the year, with revenues increasing by 8.0 per cent year-on-year to reach EUR 15.1 million. A decisive share of these revenues came from the management of mutual funds and individual portfolios (92.1 per cent).

Total costs of the company on a year-on-year comparison stagnated on the level of EUR 9.8 million. The biggest portion of costs was spent, just like last year, on distribution of mutual fund sales (71 per cent), while the remainder of total costs in 2011, i.e. 29 per cent, was made up of operating expenses, with both cost groups stagnating and remaining on the same level as 2010.

In 2011 the company generated an after-tax profit of EUR 4.3 million, which represents a growth of 26.2 per cent compared to the previous calendar year.

Supplementary pension company DDS Tatra banky

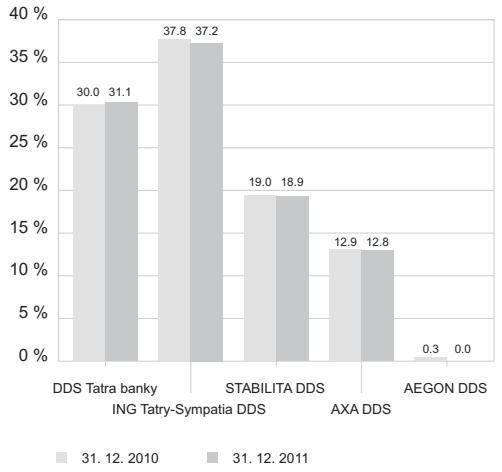
DDS Tatra banky (in EUR mil.)	2009	2010	2011
Total revenues	6.8	6.7	7.3
Profit after tax	2.3	0.9	1.1
ROE	36.7 %	13.8 %	21.5 %

In 2011 the supplementary pension saving market was not subject to any major legislative changes in the arrangement of supplementary pension savings that would affect the activity of supplementary pension companies in any great way. Last year supplementary pension savings were therefore influenced most by development on the financial markets, especially in the second half of the year when uncertainty increased and financial markets slumped due to the debt crisis in the USA and in EU member states. Despite these turbulences on the financial markets, DDS Tatra banky still produced growth on a year-on-year basis in all major indicators and so confirmed its strong position on the supplementary pension savings market.

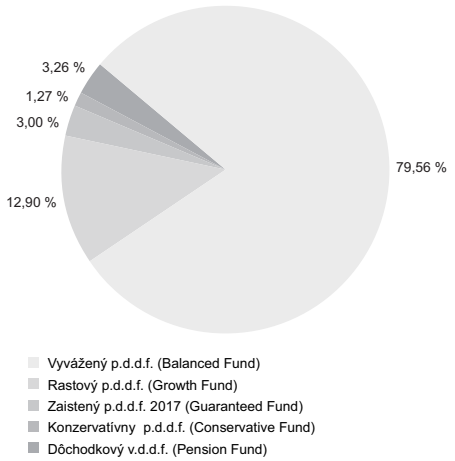
The total number of people opting for supplementary pension savings in all supplementary pension companies settled on the level of 700,000 to the end of 2011. The total volume of assets under management in supplementary pension funds increased to reach EUR 1.17 billion, which works out at a 2.8 per cent year-on-year growth.

As the market number two, DDS Tatra banky managed again to increase its market share in the past year in terms of assets managed in supplementary pension companies by 1 per cent from 30 per cent last year to 31 per cent at the end of 2011. DDS Tatra banky was the only supplementary pension company to see its market share in managed assets to increase in 2011. The total volume of assets in supplementary pension funds of DDS Tatra banky was up 6 per cent year-on-year to reach almost EUR 365 million, with the largest share of assets placed in the Balanced Fund (80 per cent) and in the Growth Fund (13 per cent).

Market shares



Net value of assets in funds
as of 31. 12. 2011



The total number of client contracts in DDS Tatra banky stagnated in the past year on the level of 195,000, The main reason for the slight 1 per cent drop compared with 2010 was the increased number of requests for the payout requests (especially pension accounts cancellations) and also as a consequence of the financial crisis affecting clients. The total number of employer contracts to the end of last year came to 7,696, which represents a year-on-year growth of 3 per cent.

	2009	2010	2011
Contracts with employers	7 264	7 480	7 696
Contracts with individuals	202 738	197 248	195 583
DDS contributions (in thsnds)	58 241	57 825	57 572
Paid out DDS pensions (in thsnds)	22 156	23 202	29 123

The revenues of DDS Tatra banky amounted to EUR 7.3 million last year, which means a growth of 9.3 per cent over the previous year's figure of EUR 6.7 million, with the highest portion of revenues being generated from those for administration of supplementary pension funds (90 per cent). This year-on-year growth was caused by increased revenues for management of supplementary pension funds and growth in the payout for pension accounts cancellations due to the said higher number of client requests. Total expenses of the company came to EUR 6 million, which represents a growth of 9 per cent compared to the EUR 5.5 million last year. The structure of total costs changed slightly compared to 2010, with a crucial share of 65 per cent of total costs coming from the distribution of supplementary pension savings, with operating costs comprising 35 per cent of total costs in 2011. In 2011 DDS Tatra banky once more managed to increase the high degree of operating effectiveness, when the ratio of operating expenses to the mean volume of assets dropping by more than 7 per cent to almost 0.6 per cent.

In 2011 the company generated an after-tax profit of EUR 1.1 million, which compared to the previous calendar year represents a growth of almost 13 per cent.

Tatra Leasing

While the year 2010 was perceived as a year of cautious optimism in the leasing sector, the year 2011 can be referred to as a renewed start to trading, as the leasing market enjoyed 16.65 per cent growth in terms of the volume of acquisition prices of financed goods.

The main accelerator of growth on the market comprised photovoltaic projects (photovoltaic power plants), but it was also thanks to growth in the financing of machinery and equipment and heavy transport vehicles. The financing of cars and utility vehicles did not do as well, and neither did the previously very popular segment of wagons and aircraft.

Considering the attained results, we can say that the company managed to maintain a leading position in the financing of individual commodities compared with other leasing companies affiliated in the Association of Leasing Companies of the Slovak Republic, with Tatra Leasing registering a 20.92 per cent year-on-year growth in new deals.

The year 2011 was challenging in various respects. In the segment of technologies, attention was paid to projects relating to green energy and the company also financed several photovoltaic power plants.

In terms of the volume of acquisition prices, Tatra Leasing occupied a leading position on the leasing market in 2011 both in the financing of movables and immovable property, whereby more substantial growth was registered in machinery and equipment. The company gained its market position thanks to a conservative strategy, consolidation of client portfolios and financed items, but also thanks to the ability to learn from the previous complex period.

Structure of the portfolio of financed items in 2011 (by acquisition prices excl. VAT):
- cars 25.9 per cent
- machinery and industrial equipment 26.0 per cent (in 2010 it was 20.7 per cent)
- freight vehicles, trailers, semi-trailers 17.4 per cent
- real estate 17.5 per cent (in 2010 it was 14.8 per cent)
- utility vehicles 4.3 per cent
- medical equipment 2.6 per cent
- energy facilities (photovoltaic power plants) 6.5 per cent

Structure of products (also expressed in acquisition prices of items excluding VAT):
- financial leasing 69.3 per cent (in 2010 it was 67.2 per cent of the portfolio of new deals)
- credit financing 22.7 per cent (in 2010 it was 23.5 per cent)
- instalment sales 1.8 per cent (in 2010 it was 7.5 per cent)
- operative leasing 6.2 per cent (in 2010 it was 1.8 per cent)

An important step was to start up processes relating to the prepared replacement of the core system, which in future will help deal with all activities in a more effective way, leading to better sales results.

Human Resources

In the field of human resources, the year 2011 was characterised by the setting and implementation of several key systems and processes, such as piloting new areas that should help future implementation of the bank's strategy.

The project Job Families, which started in 2010, continued also in 2011 with the implementation phase. A core part of this was to communicate Job Families to all bank employees so that each one of them understands clearly their contribution to the brand promise of the bank, arising out of the outputs produced by workers in their respective posts.

Considering macro-economic development and various measures from the EU, this year special attention was devoted to further improvement of payroll cost management. The bank moved managerial responsibility and decision-making on personnel costs to line managers. This step boosted the level of "empowerment" in the bank, which is a key aspect for future development of leadership.

During 2011 Tatra banka carried out a pilot project aimed at intensifying the rotation of managers within the bank. Rotation is an important aspect of developing bank managers, and above all it should gradually contribute to an even higher level of interdepartmental co-operation and to boosting the perception of how the bank works on the principle of end-to-end processes. Last but not least, rotation is intensely supported also as part of the RBI Group. As part of the pilot project, the focus was on setting the rules of rotations and on their functioning and communication, so that we can launch the rotation programme throughout the whole bank in 2012.

By continuing with analyses and diagnostics into managerial styles of bank managers, focusing on B-2 managers and on branch directors, Tatra banka contributed to the future development of bank leadership. Individual development plans were compiled from the analyses, which if realistically achieved will contribute to pushing the current culture of management more towards a performance-based one.

In the context of bank activities relating to the improvement of processes (Lean method), this year the work on the proposal and design of a more effective recruiting and onboarding process started.

Furthermore, Tatra banka also systematically developed the ability of its managers and employees in terms of change management and implementation. The basis of these activities is a methodology compiled by change managers and a working group, representing the various levels and areas within the bank.

The structure of employees remained unchanged, with staff comprising 70 per cent women and 30 per cent men. The bank is a young organisation with an average age of roughly 33, with over 60 per cent of employees having a university education. Tatra banka is a much sought after employer, and in 2011 it received almost 49,000 applications for employment.

Support for Art and Education

Tatra banka remained true to its strategic orientation on art and education also in 2011. As a large company that enjoys a stable position on the market, Tatra banka appreciates every success. In addition to trying to produce excellent financial indicators, it does not neglect sustainable development and the values of a healthy and ethical society. For the results of Tatra banka to be useful for a broad range of people, its support has been devoted to education and art for a long time already.

Support for theatrical and dance works provided scope for the creation of highly acknowledged artistic productions. This year Tatra banka was the general sponsor of the Slovak National Theatre once again and supported a project of direct broadcasts from the Metropolitan Opera in New York screened at the Aréna Theatre. Our partnership with the Bratislava Ballet under the guidance of Mário Radačovský has the goal of supporting the core current in contemporary trends in European dance arts.

In exhibition halls, Tatra banka supported the continuation of the unique exhibition Galandovci II (The Galandovs) – legends of Slovak contemporary art at the Bratislava City Gallery and in the auction company SOGA it supported the exhibition of Nadácia Tatra banky Prize laureate Dezider Tóth, who goes by the artistic pseudonym Monogramista T. D.

In addition to established artists, the bank also focused on up-and-coming young artists and in 2011 supported an auction of contemporary fine art in partnership with the Foundation for contemporary art and the SOTHEBY´S auction halls.

Large artistic projects that Tatra banka co-operated on in 2011 in the film genre include the prestigious film festival Art Film Fest in Trenčianske Teplice.

Tatra banka regularly contributes to the advancement of education also by supporting established conferences for top professionals and via practical experience. In 2011 it was once again the exclusive partner of the TREND conference. In co-operation with the publisher Eastone Books, Tatra banka supported the issue of books from the edition Business Class and in co-operation with economic daily Hospodárske noviny it supported the HN Club.

Support for education and art is a long-term strategy that must be stable and continual to be successful. The results of this work are not visible from year to year, but the strategy of the bank is based on the philosophy that education and art form values that we can build on even in tough times, and they help resolve difficult situations that come with the development of society.

Nadácia Tatra banky (Tatra banka Foundation)

The foundation Nadácia Tatra banky creates active space for the application of good ideas, innovative approaches and activities that improve the particular environment or that make progress in the specific area.

The Foundation continued with its strong orientation on university education and art once again in 2011, with the visit of a Nobel Prize laureate and Pulitzer Prize winner, for example.

By way of its programmes and grants, the Foundation has long supported Slovak students in their studies at universities abroad, the quality of education in universities, helping institutions that deal with education, raising the standard of education, and bringing world scientific experts to lecture in Slovakia. The ambition is to bring the educational process at Slovak universities up to the standard of modern education at world renowned educational institutions, and more in line with real practical needs.

In 2011 the Foundation prepared and supported a total of 178 projects with EUR 689,416.80:

Grant programmes

The aim of the Foundation's grant programmes is to support active groups of professors and students in universities who surpass the official syllabus in the educational process and try to extend it, enrich the specific subject or link the educational process to needs in practice and so on. In addition to four stable grant programmes, in 2011 the Foundation introduced a completely new grant called Business Idea, which is to support the best students and help them achieve their business dreams.

E-Talent	33 200 EUR	11 projects
Knowing more	40 130 EUR	18 projects
Students to the world	60 037 EUR	27 projects
Quality education	61 843 EUR	21 projects
Business Idea	20 000 EUR	4 projects

Students to the world: The best students get a stay at universities abroad

The grant programme supports the best students by giving them a chance to study at schools abroad and gain experience that they can then apply in Slovakia. As part of the programme, the Foundation provides financial grants to cover part of the costs linked to the study stays abroad, summer schools, work experience and research assignments at certain renowned universities abroad.

Business Idea: Supporting real business of students

The aim is to support the best and most feasible business plan of students and so help them achieve their business dream. The programme is designed to support the education and integration of future university graduates to the labour market by supporting business as a tool for social change. In this way, the Foundation supports students and fresh graduates to start up their own business ideas, so that once they finish university they are not unemployed, so they don't have to look for employment below their educational level.

Quality education: Support for professors and educational projects at universities

The ambition of this grant programme is to bring the educational process at Slovak universities up to the standard of modern education at world renowned educational institutions, and more in line with real practical needs.

E-Talent: Research in informatics

Grants can be requested by students, teachers and research workers who deal with research in the field of applied and industrial informatics. The goal is to support the creativity and the innovativeness of students and teachers who have decided to carry out a science project while at university.

Knowing more: Projects combining education and practice

A programme in support of activities, projects and programmes of non-governmental organisations that were established with the aim of advancing education at Slovak universities. The aim of the programme Knowing more is to support active groups in universities that "want to know more", and so are involved in the educational process over and above the official extent, and who try to utilise and extend the educational process to the maximum degree, to enable the professional growth of pedagogues and students, to link the educational process with practical needs or to increase the social status of universities, their pedagogues, scientific and management employees, and students, of course.

Personalities in person

As part of the open programme of the Foundation called "Personalities in person", Slovakia welcomed winner of the Nobel Prize for economics and winner of the Pulitzer Prize for international news, as well as distinguished professors and scientists from foreign universities, to lecture to the students of Slovak universities and the professional community. The Foundation supported a total of 8 projects in 2011 as part of the open programme, with the amount of EUR 286,773.

The Foundation supports the reception of 5 professors and scientific personalities from abroad:
- Steven G. Horwitz (St. Lawrence University, New York)
- Philipp Bagus (King Juan Carlos University, Madrid, Spain)
- Peter Boettke (George Mason University)
- Marco A. Janssen (Arizona State University)
- Robert P. Murphy (Ludwig von Mises Institute)

An invitation was accepted by winner of the Nobel Prize for economics:
- Oliver Williamson (University of California, Berkeley)

The Foundation also supported the visit of Pulitzer Prize winner for international news:
- Joshua Friedman (Columbia University, New York)

Book edition of Nadácia Tatra banky

As part of its own Book edition, the Foundation presented Slovak university libraries with four titles – Imitators; Fast talent management; Good business – Recommendations on how to harmonise social responsibility with brand, and Private Equity, with a total edition of 8,000. The books were donated as a book grant to Slovak academies and universities and were selected together with experts and people active in the field of education abroad. Our aim is to select books that set the trends in education and to issue titles that enrich the educational process.

Fund in aid of Africa

A total of EUR 5,285.80 was collected for this charity project of the Red Cross in the battle against famine.

Employee programme Good Heart^{TB}

The programme supports the activities of Tatra banka employees that lead to a higher quality of life in their families, various human societies and communities, and quality of the environment in which they live. The Foundation therefore creates the possibility and provides support to employees who want to actively change their environment, who by their voluntary work or financial donations want to influence it. The programme supported 77 projects with a total of EUR 33,200.

Partnerships in regions

Thanks to Partnerships in regions, 11 theatres received a total of EUR 51,487 in support.

Nadácia Tatra banky Prize for Art

This programme awards personalities and young artists who by their work in the past year have contributed toward the development of Slovak art in 5 main categories: Literature, Music, Theatre, Fine art, Audiovisual work, film and TV. The aim of the Foundation is to support top talented Slovak artists. For sixteen years already the Foundation has been achieving this goal, especially thanks to the Academy, whose members intensively monitor what's happening in Slovak art. Nominated artists are selected on the basis of their works and artistic output in the past year. Priority of the foundation is to award the prize in a transparent way and to award only the very best.

Main prize laureates:

- Audiovisual work, film, TV and radio: Juraj Herz – for directing the film Habermannov mlyn (Habermann's mill) and Marek Leščák – screenplay for the film Cigán (Gypsy)
- Theatre: Anna Javorková – for her portrayal of Volumnia in the drama Coriolanus, Slovak National Theatre, Bratislava
- Fine art: Miroslav Cipár – for the exhibition Nový Cipár, Danubiana Art Museum, Bratislava
- Literature: Dušan Dušek – for the book Holá veta o láske (Hollow sentence about love)
- Music: Martin Burlas – music for the play Mobil mŕtveho muža (Mobile of a dead man), Slovak National Theatre, Bratislava

Laureates of the special Young Artist Prize:

- Audiovisual work, film, TV and radio: Tomáš Hulík – concept, script, direction of the documentary film Návrat rysov (Return of the lynx)
- Theatre: Milan Ondrík – for his portrayal of Gaius Marcius Coriolanus in the theatrical drama Coriolanus, Slovak National Theatre, Bratislava
- Fine art: Lucia Dovičáková – for the exhibition Márnosť desivá (Terrible vanity), Krokus Gallery, Bratislava
- Literature: Ivana Dobrakovová – for the book Bellevue
- Music: Dalibor Karvay – opening concert of the 46th year of the Bratislava Music Festival (BHS)

Distribution of the Profit for the Year 2011

Distribution of the Profit for the Year 2011

Distribution of the Profit for the Year 2011

(in thousands of EUR)	2011
Profit after tax	**146 036**
Dividends – Ordinary shares	75 356
Dividends – Preferred shares	9 876
Allocation to statutory reserves	1 794
Allocation to retained earnings	59 010

Profit according to separate financial statements of Tatra banka, a. s., see Note 32 to the consolidated financial statements.

Dividends without claim to payment as of the date of holding of General Meeting will be settled to the retained earnings of previous years as of December 31, 2012.

The Financial statements, the proposal for distribution of the profit and annual remuneration in the amount of EUR 808.000 for the members of the Supervisory Board were approved by the Ordinary General Meeting of Shareholders on June 28, 2012.

Consolidated Statement

Independent Auditor‘s Report

Deloitte.

Deloitte Audit s.r.o.
Digital Park II, Einsteinova 23
851 01 Bratislava
Slovak Republic

Tel: +421 2 582 49 111
Fax: +421 2 582 49 222
deloitteSK@deloitteCE.com
www.deloitte.sk

Registered at the Municipal
Court in Bratislava I
Section Sro, File 4444/B
Id. Nr.: 31 343 414
VAT Id. Nr.: SK2020325516

Tatra banka, a.s.

INDEPENDENT AUDITOR’S REPORT

Shareholders and Board of Directors of Tatra banka, a.s.:

We have audited the accompanying consolidated financial statements of Tatra banka, a.s. and subsidiaries (the "Bank"), which comprise the statement of financial position as at 31 December 2011, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Statutory Body’s Responsibility for the Financial Statements

The Bank’s statutory body is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards as adopted by the EU, and for such internal control as the statutory body determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank’s internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the statutory body, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Tatra banka, a.s. and subsidiaries as of 31 December 2011, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Bratislava 6 March 2012

Deloitte Audit s.r.o.
Licence SKAu No. 014

Ing. Zuzana Letková, FCCA
Responsible Auditor
Licence SKAu No. 865

Consolidated Statement of Comprehensive Income for the year ended 31 December 2011

prepared in accordance with International Financial Reporting Standards as adopted by the European Union

(in EUR thousands)	Note	2011	2010
Interest and similar income		367 275	333 824
Interest and similar expenses		(76 444)	(65 939)
Net interest income	**(1)**	**290 831**	**267 885**
Provisions for impairment losses	(2)	(15 092)	(43 948)
Net interest after provisioning		**275 739**	**223 937**
Fees and commissions income		125 564	122 177
Fees and commissions expense		(21 889)	(19 983)
Net fees and commission income	**(3)**	**103 675**	**102 194**
Net profit (loss) from trading instruments	(4)	15 103	14 277
Net profit (loss) from financial instruments at fair value through profit or loss	(5)	(2 784)	1 689
Net profit (loss) from investments in associated undertakings	(6)	1 301	296
General administrative expenses	(7)	(223 984)	(221 456)
Other operating profit (loss)	(8)	5 605	3 130
Profit before income taxes		**174 655**	**124 067**
Income taxes	(9)	(35 571)	(29 902)
Consolidated profit after tax		**139 084**	**94 165**
Other components of comprehensive income, after income tax		**-**	**-**
Comprehensive consolidated profit after tax		**139 084**	**94 165**
Basic and diluted earnings per ordinary share (face value EUR 800) in EUR	**(10)**	**1 899**	**1 387**
Basic and diluted earnings per ordinary share (face value EUR 4 000) in EUR	**(10)**	**9 497**	**6 934**
Basic and diluted earnings per preference share (face value EUR 4) in EUR	**(10)**	**9**	**7**

Consolidated Statement of Financial Position for the year ended 31 December 2011

prepared in accordance with International Financial Reporting Standards as adopted by the European Union

(in EUR thousands)	Note	2011	2010
Assets			
Cash and deposits in central banks	(11)	349 287	151 715
Loans and advances to banks	(12)	168 972	530 486
Loans and advances to customers, gross	(13)	6 357 055	5 769 270
Impairment losses for loans and advances	(14)	(187 913)	(203 341)
Derivative financial assets	(15)	106 024	107 329
Held for trading financial assets	(16)	341 362	275 984
Financial assets at fair value through profit or loss	(17)	133 893	211 945
Held-to-maturity financial investments	(18)	1 697 480	1 740 384
Available-for-sale financial assets	(19)	644	644
Investments in associated undertakings	(20)	13 074	11 773
Non-current intangible assets	(21)	41 060	39 911
Non-current tangible assets	(21)	80 839	63 823
Investment property	(21)	7 799	9 662
Current income tax asset	(22)	-	3 596
Deferred income tax asset	(9, 23)	16 685	17 665
Other assets	(24)	34 550	31 268
Total assets		**9 160 811**	**8 762 114**
Equity and liabilities			
Deposits from banks	(25)	101 414	61 582
Deposits from customers	(26)	6 932 867	6 801 644
Derivative financial liabilities	(27)	120 451	126 175
Liabilities from debt securities	(28)	753 312	719 486
Provisions for liabilities and charges	(29)	35 383	38 687
Other liabilities	(30)	45 434	44 697
Subordinated debt	(31)	120 423	120 393
Total liabilities		**8 109 284**	**7 912 664**
Equity (excluding current year profit)	(32)	912 443	755 285
Comprehensive consolidated profit after tax		139 084	94 165
Total equity		**1 051 527**	**849 450**
Total equity and liabilities		**9 160 811**	**8 762 114**

Consolidated Statement of Changes in Equity for the year ended 31 December 2011

prepared in accordance with International Financial Reporting Standards as adopted by the European Union

(in EUR thousands)	Share capital	Share capital - own shares	Share premium	Share premium - own shares	Reserve fund and other funds	Retained earnings	Compre-hensive consolidated profit after tax	Total
Equity as at 1 January 2011	55 358	(76)	161 741	(744)	13 175	525 831	94 165	849 450
Transfer to retained earnings	-	-	-	-	-	19 249	(19 249)	-
Increase of the legal reserve fund	-	-	-	-	160	-	(160)	-
Dividends paid	-	-	-	-	-	-	(74 756)	(74 756)
Issue of ordinary shares (see I. General Information)	8 320	-	121 680	-	-	-	-	130 000
Issue of preference shares (see I. General Information)	648	-	5 754	-	-	-	-	6 402
Sale of own preference shares	-	523	-	4 643	-	-	-	5 166
Amortisation of discount on preference shares	-	-	2 794	-	-	-	-	2 794
Loss on sale of ordinary and preference shares	-	-	(917)	917	-	-	-	-
Repurchase of preference shares	-	(563)	-	(6 050)	-	-	-	(6 613)
Comprehensive consolidated profit after tax	-	-	-	-	-	-	139 084	139 084
Equity as at 31 December 2011	**64 326**	**(116)**	**291 052**	**(1 234)**	**13 335**	**545 080**	**139 084**	**1 051 527**

(in EUR thousands)	Share capital	Share capital - own shares	Share premium	Share premium - own shares	Reserve fund and other funds	Retained earnings	Compre-hensive consolidated profit after tax	Total
Equity as at 1 January 2010	54 555	(165)	152 506	(1 492)	10 457	497 488	94 884	808 233
Transfer to retained earnings and increase of the reserve fund	-	-	-	-	2 718	28 343	(31 061)	-
Dividends paid	-	-	-	-	-	-	(63 823)	(63 823)
Issue of preference shares	803	-	6 951	-	-	-	-	7 754
Sale of own preference shares	-	397	-	3 432	-	-	-	3 829
Amortisation of discount on preference shares	-	-	2 742	-	-	-	-	2 742
Loss on sale of ordinary and preference shares	-	-	(458)	458	-	-	-	-
Repurchase of preference shares	-	(308)	-	(3 142)	-	-	-	(3 450)
Comprehensive consolidated profit after tax	-	-	-	-	-	-	94 165	94 165
Equity as at 31 December 2010	**55 358**	**(76)**	**161 741**	**(744)**	**13 175**	**525 831**	**94 165**	**849 450**

Consolidated Cash Flow Statement for the year ended 31 December 2011

prepared in accordance with International Financial Reporting Standards as adopted by the European Union

(in EUR thousands)	2011	2010
Cash flows from operating activities		
Profit before tax	174 655	124 067
Adjustments (Note 34):	(245 285)	(174 904)
Cash flow used in operating activities before changes in working capital, interest received and paid and income taxes paid (Note 34)	**(70 630)**	**(50 837)**
(Increase)/decrease in operating assets:		
Obligatory reserve with National Bank of Slovakia	52 677	7 744
Loans and advances to banks	424 962	538 685
Loans and advances to customers	(619 941)	(291 306)
Derivative financial assets and liabilities	(2 028)	11 451
Held-for-trading finacial assets	(140 022)	181 871
Financial assets at fair value through profit and loss	74 259	(90)
Other assets	(3 282)	(1 793)
Increase/(decrease) in operating liabilities:		
Deposits from banks	39 874	(41 735)
Deposits from customers	121 811	82 460
Liabilities from debt securities	32 268	(343 505)
Other liabilities	65	11 144
Cash (used in) earned from operations before interest paid and received and income taxes paid	**(89 987)**	**104 089**
Interest paid	(66 890)	(69 236)
Interest received	313 862	291 806
Income taxes paid	(30 323)	(24 065)
Net cash flows from operating activities	**126 662**	**302 594**

(in EUR thousands)	2011	2010
Cash flows from investing activities		
Net (increase) in held-to-maturity financial investments	(354 922)	(407 101)
Net decrease in held-to-maturity financial investments	335 839	363 742
Interest received from held-to-maturity financial investments	48 319	27 818
Proceeds from sale or disposal of non-current tangible and intangible assets	7 803	1 833
Purchase of non-current tangible and intangible assets	(47 048)	(23 660)
Acquisition of investment property	(1 227)	(1 064)
Dividends received	9	12
Net cash flows from investing activities	**(11 227)**	**(38 420)**
Cash flows from financing activities		
(Redemption) or sale of preference shares	(1 447)	379
Issue of preference shares	6 402	7 754
Issue of ordinary shares	130 000	-
Dividends paid	(74 756)	(63 823)
Net cash flows used in financing activities	**60 199**	**(55 690)**
Effects of exchange rate changes on cash and cash equivalents and other effects	(1 603)	3 362
Change in cash and cash equivalents	**174 031**	**211 846**
Cash and cash equivalents, beginning of the year (Note 34)	323 756	111 910
Cash and cash equivalents, end of the year (Note 34)	**497 787**	**323 756**

I. GENERAL INFORMATION

Scope of activities

The Tatra banka consolidated group (hereinafter also the "Group") includes the parent company – Tatra banka, akciová spoločnosť (hereinafter also the "Bank" or the "Parent Company"), whose registered seat is at Hodžovo námestie 3, Bratislava, and 11 subsidiaries and associated undertakings. The Bank was established on 17 September 1990 and incorporated with the Commercial Register on 1 November 1990. The Parent Company's identification number is 00 686 930; the tax identification number is 202 040 8522.

The Group offers a wide range of banking and financial services. Its core activities include receipt of deposits, provision of loans, domestic and cross-border money transfers, provision of investment services, investment activities, and supplementary services under Act No. 566/2001 Coll. on Securities and Investment Services and on Amendments to and Supplementation of Certain Acts etc. The valid list of all the Group's activities is disclosed in the Commercial Register of the Parent Company, its subsidiaries and associated undertakings.

The Parent Company's shareholders as a percentage of voting rights:

	31 December 2011	31 December 2010
Raiffeisen Bank International AG	74.39 %	73.88 %
Tatra Holding GmbH	14.48 %	14.38 %
Other	11.13 %	11.74 %
Total	**100.00 %**	**100.00 %**

The Parent Company's shareholders as a percentage of subscribed share capital:

	31 December 2011	31 December 2010
Raiffeisen Bank International AG	65.77%	64.80 %
Tatra Holding GmbH	12.80%	12.62 %
Other	21.43%	22.58 %
Total	**100.00 %**	**100.00 %**

The Parent Company's shareholders as absolute shares of subscribed share capital:

(in EUR thousands)	31 December 2011	31 December 2010
Raiffeisen Bank International AG	42 305	35 870
Tatra Holding GmbH	8 236	6 984
Other	13 785	12 504
Total	**64 326**	**55 358**

Tatra Holding GmbH is a member of the Raiffeisen Ostbanken-Holding GmbH Group. The ultimate parent company of Tatra Holding GmbH is Raiffeisenlandesbank Niederosterreich-Wien AG.

The Parent Company performs its activities in the Slovak Republic through its 151 branches, corporate centres and corporate centre sub-agencies, Centrum bývaniaTB branches and the Centrum investovaniaTB branch.

The Parent Company's ordinary shares are publicly traded on the Bratislava Stock Exchange.

The members of the statutory and supervisory bodies of the Parent Company (Group) as at 31 December 2011:

Supervisory Board	
Chairman:	Rainer FRANZ
Vice-Chairman:	Herbert STEPIC
Members:	Peter BALÁŽ
	Ján NEUBAUER
	Pavol FEITSCHER
	Reinhard KARL
	Aris BOGDANERIS
	Hubert FIGL

Board of Directors	
Chairman:	Igor VIDA
Vice-Chairman:	Miroslav ULIČNÝ
Members:	Marcel KAŠČÁK
	Michal LIDAY
	Martin PYTLIK (office terminated as at 30 November 2011)
	Vladimír MATOUŠ
	Natália MAJOR

Changes in the Parent Company's (Group's) Supervisory Board in 2011:

There were no changes in the structure of the Parent Company's supervisory board in 2011.

Changes in the Parent Company's (Group's) Board of Directors in 2011:

Martin Pytlik – termination of office as Member of the Board of Directors on 30 November 2011

Business name of the ultimate parent company:

Raiffeisen-Landesbanken Holding GmbH, Vienna, Austria

Business name of the ultimate parent company preparing the consolidated financial statements:

Raiffeisen Zentralbank Österreich AG, Vienna, Austria

Business name of the immediate parent company:

Raiffeisen Bank International AG, Vienna, Austria

Business name of the immediate parent company preparing the consolidated financial statements:

Raiffeisen Bank International AG, Vienna, Austria

The consolidated financial statements of the Raiffeisen Zentralbank Group ("RZB Group") are maintained with the Handelsgericht Vienna Register Court at Marxergasse 1a, 1030 Vienna, Austria.

The RZB Group represents the parent company (Raiffeisen Zentralbank) and its subsidiaries and associates owned directly or indirectly through its subsidiaries.

Raiffeisen Bank International AG also prepares consolidated financial statements. The consolidated financial statements of the Raiffeisen Bank International AG Group (the "RBI Group") are deposited with the register court (Handelsgericht Wien) at Marxergasse 1a, 1030 Vienna, Austria. The shares of Raiffeisen Bank International AG are listed on the Vienna Stock Exchange.

Definition of the consolidated group:

As at 31 December 2011, the Group comprised the Parent Company and the following companies (the "consolidated entities"):

Company	Direct share in %	Share of the Group in %	Indirect share through consolidated entities	Company ID No.	Principal activities	Consolidation method	Seat
Tatra Group Servis, s. r. o.	99.50 %	100 %	Tatra Billing, s. r. o.	35 730 561	Business activities	Full consolidation method	Bratislava
Tatra Asset Management, správ. spol., a. s.	100 %	100 %	N/A	35 742 968	Asset management	Full consolidation method	Bratislava
Doplnková dôchodková spoločnosť Tatra banky, a. s.	100 %	100 %	N/A	36 291 111	Supplementary retirement savings	Full consolidation method	Bratislava
ELIOT, s. r. o.	0.50 %	100 %	Tatra Group Servis, s. r. o.	31 392 687	Asset leasing and management	Full consolidation method	Bratislava
Tatra Office, s. r. o.	-	100 %	Tatra Group Servis, s. r. o.	35 780 860	IT support	Full consolidation method	Bratislava
CENTRUM BÝVANIA, s. r. o.	-	100 %	Tatra Group Servis, s. r. o.	35 707 682	Asset leasing and management	Full consolidation method	Bratislava
Tatra Billing, s. r. o.	100 %	100 %	N/A	35 810 572	Services	Full consolidation method	Bratislava
TL Leasing, s. r. o.	-	100 %	Tatra Group Servis, s. r. o.	31 398 456	Leasing	Full consolidation method	Bratislava
Tatra Residence, s. r. o.	-	100 %	Tatra Group Servis, s. r. o.	35 805 498	Asset leasing and management	Full consolidation method	Bratislava
Tatra-Leasing, s. r. o.	48 %	48 %	N/A	31 326 552	Leasing	Equity method	Bratislava
Slovak Banking Credit Bureau, s. r. o.	33.33 %	33.33 %	N/A	35 869 810	Services	Unconsolidated due to immateriality	Bratislava

Changes in Group in 2011

There were no changes in the Group in 2011.

Distribution of the Parent Company's profit for 2010

Dividends – ordinary shares	65 789
Dividends – preference shares	8 967
Allotment to statutory reserve fund	160
Contribution to retained earnings from previous years	16 391
Total	**91 307**

A dividend per ordinary share with a face value of EUR 800 was paid in the amount of EUR 1 084. A dividend per ordinary share with the face value of EUR 4 000 was paid in the amount of EUR 5 420. A dividend per preference share with the face value of EUR 4 was paid in the amount of EUR 5.42.

The annual separate and consolidated financial statements for 2010, the Annual Report for 2010, the profit distribution and the determination of royalties to the Supervisory Board members for 2010 were approved by the Parent Company's General Meeting held on 26 May 2011. Dividends to which no title arose as at the date of the General Meeting in the amount of EUR 254 thousand were recognised in the retained earnings from previous years as at 31 December 2011.

Profit distribution proposal of the Parent Company for 2011

Dividends – ordinary shares	75 356
Dividends – preference shares	9 876
Allotment to statutory reserve fund	1 794
Contribution to retained earnings from previous years	59 010
Total	**146 036**

A dividend in the amount of EUR 1 060 is proposed to be paid per ordinary share with the face value of EUR 800. A dividend in the amount of EUR 5 300 is proposed to be paid per ordinary share with the face value of EUR 4 000. A dividend in the amount of EUR 5.30 is proposed to be paid per preference share with the face value of EUR 4.

The profit distribution for 2011 is subject to the approval of the General Meeting.

Increase of the Parent Company's share capital by subscription of new ordinary shares

In order to strengthen the capital and ensure the further growth of the Parent Company, the Parent Company's General Meeting held on 26 May 2011 approved the increase of the Parent Company's share capital by EUR 8 320 000 by the subscription of 10 400 ordinary shares with a face value of EUR 800 per share at the rate of issue in the amount of EUR 12 500. The total amount of the issue of new ordinary shares was paid to the Parent Company's account on 31 August 2011. The change took effect on 1 September 2011, when the increase in the share capital was recorded in the Commercial Register. Information on the quantity and face value of the shares is provided in Note 32. The changes associated with the increase in the share capital are recognised in the Statement of Changes in Equity.

The table below outlines the effect of the change on equity from the increase in the share capital by the subscription of new ordinary shares:

Share capital	8 320
Share premium	121 680
Total effect on equity	**130 000**

Increase of the Parent Company's share capital by subscription of new preference shares

In 2011, the Parent Company's share capital was increased by EUR 647 768 by the subscription of 161 942 preference shares with the face value of EUR 4 per ordinary share at the rate of issue in the amount of EUR 39.53. The total amount of the issued new preference shares was paid to the Parent Company's account on 30 November 2011. The change became effective by repaying the issue of new preference shares and by registering the shares with the shares depository in December 2011 and the increase of the share capital was registered in the Commercial Register on 13 December 2011. Information on the number and face values of the shares is stated in Note 32. The changes relating to the increase of the share capital are disclosed in the Statement of Changes in Equity.

The impact of the change on the equity arising from the increase of the share capital on the subscription of new preference shares is set out below:

Share capital	648
Share premium	5 754
Total impact on the equity	**6 402**

Regulatory requirements

The Group is subject to the regulatory requirements of the National Bank of Slovakia, which include limits and other restrictions pertaining to minimum capital adequacy requirements, provisioning to cover credit risk, liquidity, interest rate, and foreign currency position. In 2011, the Group fulfilled all such regulatory requirements.

II. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these financial statements are set out below:

a) Statement of compliance

The consolidated financial statements of the Group for 2011 and comparatives for 2010 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") in Commission Regulation (EC) 1126/2008, and in accordance with the current interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

Commission Regulation (EC) 1126/2008 of 3 November 2008 was issued to combine in a single document all standards presented by the International Accounting Standards Board (IASB) and all interpretations presented by the International Financial Reporting Interpretations Committee (IFRIC), which were fully endorsed in the Community as at 15 October 2008, except for IAS 39 (relating to recognition and measurement of financial instruments). Commission Regulation (EC) 1126/2008 of 3 November 2008 replaces Commission Regulation (EC) 1725/2003 of 29 September 2003.

IFRS as adopted by the EU do not currently differ from IFRS as issued by the IASB, except for certain requirements for portfolio hedge accounting under IAS 39, which has not been approved by the EU. The Group has determined that portfolio hedge accounting under IAS 39 would not have significant impact on the financial statements had it eventually been approved by the EU at the balance sheet date.

Standards and Interpretations effective in the current period

The Group has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that have been endorsed for use in the EU and that are relevant to its operations and are effective for accounting periods beginning on 1 January 2011. The following amendments to the existing standards issued by the International Accounting Standards Board and adopted by the EU are effective for the current accounting period:

- **Amendments to IAS 24 "Related Party Disclosures"** – Simplifying the disclosure requirements for government-related entities and clarifying the definition of a related party, adopted by the EU on 19 July 2010 (effective for annual periods beginning on or after 1 January 2011);
- **Amendments to IAS 32 "Financial Instruments: Presentation"** – Accounting for rights issues, adopted by the EU on 23 December 2009 (effective for annual periods beginning on or after 1 February 2010);
- **Amendments to IFRS 1 "First-time Adoption of IFRS"** – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters, adopted by the EU on 30 June 2010 (effective for annual periods beginning on or after 1 July 2010);
- **Amendments to various standards and interpretations "Improvements to IFRSs (2010)"** – Resulting from the annual improvement project of IFRS published on 6 May 2010 (IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34, IFRIC 13), primarily with a view to removing inconsistencies and clarifying wording, adopted by the EU on 18 February 2011 (the amendments will apply to annual periods beginning on or after 1 July 2010, or beginning on or after 1 January 2011, depending on the standard/interpretation);
- **Amendments to IFRIC 14 "IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction"** – Prepayments of a Minimum Funding Requirement, adopted by the EU on 19 July 2010 (effective for annual periods beginning on or after 1 January 2011); and
- **IFRIC 19 "Extinguishing Financial Liabilities with Equity Instruments"**, adopted by the EU on 23 July 2010 (effective for annual periods beginning on or after 1 July 2010).

The adoption of these amendments to the existing standards has not led to any changes in the Group's accounting policies.

Standards and Interpretations issued by IASB and adopted by the EU but not yet effective

At the date of authorisation of these financial statements the following standards, revisions and interpretations adopted by the EU were in issue but not yet effective:

- **Amendments to IFRS 7 "Financial Instruments: Disclosures"** – Transfers of Financial Assets, adopted by the EU on 22 November 2011 (effective for annual periods beginning on or after 1 July 2011).

The Group has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Group anticipates that the adoption of these standards, revisions and interpretations will have no material impact on the financial statements of the Group in the period of initial application.

Standards and Interpretations issued by IASB but not yet adopted by the EU

At present, IFRS as adopted by the EU do not significantly differ from regulations adopted by the International Accounting Standards Board (IASB) except from the following standards, amendments to the existing standards and interpretations, which were not endorsed for use as at 31 December 2011:

- **IFRS 9 "Financial Instruments"** (effective for annual periods beginning on or after 1 January 2015);
- **IFRS 10 "Consolidated Financial Statements"** (effective for annual periods beginning on or after 1 January 2013);
- **IFRS 11 "Joint Arrangements"** (effective for annual periods beginning on or after 1 January 2013);
- **IFRS 12 "Disclosures of Involvement with Other Entities"** (effective for annual periods beginning on or after 1 January 2013);
- **IFRS 13 "Fair Value Measurement"** (effective for annual periods beginning on or after 1 January 2013);
- **IAS 27 (revised in 2011) "Separate Financial Statements"** (effective for annual periods beginning on or after 1 January 2013);
- **IAS 28 (revised in 2011) "Investments in Associates and Joint Ventures"** (effective for annual periods beginning on or after 1 January 2013);
- **Amendments to IFRS 1 "First-time Adoption of IFRS"** – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (effective for annual periods beginning on or after 1 July 2011);
- **Amendments to IFRS 7 "Financial Instruments: Disclosures"** – Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2013);
- **Amendments to IAS 1 "Presentation of Financial Statements"** – Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after 1 July 2012);
- **Amendments to IAS 12 "Income Taxes"** – Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2012);
- **Amendments to IAS 19 "Employee Benefits"** – Improvements to Accounting for Post-employment Benefits (effective for annual periods beginning on or after 1 January 2013);
- **Amendments to IAS 32 "Financial Instruments: Presentation"** – Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2014); and
- **IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine"** (effective for annual periods beginning on or after 1 January 2013);

The Group's management anticipates that adopting of IFRS 9 in its current wording will have a significant impact on the financial statements, mostly in connection with the classification of financial instruments. The Group's management also anticipates that adopting the other standards, revisions and interpretations will have no significant impact on the Group's financial statements in the period of initial application.

At the same time, hedge accounting regarding the portfolio of financial assets and liabilities, whose principles have not been adopted by the EU, is still unregulated. According to the Group's estimates, application of hedge accounting for the portfolio of financial assets or liabilities pursuant to IAS 39: "Financial Instruments: Recognition and Measurement", would not significantly impact the financial statements, if applied as at the balance sheet date.

Purpose of preparation

The purpose of preparing these annual consolidated financial statements in the Slovak Republic is to comply with Act on Accounting No. 431/2002 Coll. The Group prepares its separate and consolidated financial statements and annual report under special regulations – Regulation (EC) 1606/2002 of the European Parliament and of the Council on the Application of International Accounting Standards (IFRS). The separate and consolidated financial statements prepared in compliance with IFRS as at 31 December 2011, dated 6 March 2012, will be available at the Collection of Deeds after they are prepared. The financial statements are intended for general use and information; they are not intended for the purposes of any specific user or consideration of any specific transactions. Accordingly, users should not rely exclusively on these financial statements when making decisions.

Basis of preparation

The financial statements are prepared on an accrual basis of accounting whereby the effects of transactions and other events are recognised when they occur and reported in the financial statements of the periods to which they relate and on the going concern assumption.

The financial statements are prepared under the historical cost convention; certain financial instruments were revalued to fair value.

The reporting currency used in the financial statements is the euro ("EUR") with accuracy to EUR thousand, unless otherwise indicated.

Significant accounting judgements

The presentation of financial statements in conformity with IFRS requires the preparation of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and their reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and future changes in the economic conditions, business strategies, regulatory requirements, accounting rules, and/or other factors could subsequently result in a change in estimates or other adjustments that could have a material impact on the reported financial position and results of operations.

The effect of a change in an accounting estimate shall be recognised prospectively by including it in profit or loss in the period of the change, if the change affects that period only, or the period of the change and future periods, if the change affects both.

Significant areas of judgement include the following:

- Provisioning for incurred loan losses and identified contingent liabilities involves many uncertainties concerning the outcomes of the risks mentioned above and requires the Group's management to make many subjective assessments when estimating the amount of losses. As described in Section f) paragraph 1 below and disclosed in detail in Note 2 and 14, the Group creates provisions for the impairment of loans and receivables where there is objective evidence that, as a result of past events, the estimated future cash-flows are impacted negatively. These provisions are based on the Group's historical and current experience concerning default rates, recovery rates of loans, or time needed from a loss event to crystallise in loan default, as well as subjective judgments of the Parent Company's management about estimated future cash-flows. Given the current economic conditions, the result of such estimates may differ from impairment provisions recognised as at 31 December 2011.
- Amounts recognised as provisions for liabilities are based on the management's judgement and represent the best estimate of expenses needed to settle a liability with uncertain timing or an uncertain amount payable.
- The income taxes rules and regulations have recently experienced significant changes; there is limited historical precedent and/or interpretation judgement with respect to the extensive and complex issues affecting the banking sector. Furthermore, tax authorities have broad powers as regards the interpretation of tax laws and regulations during the tax audit of a taxpayer. As a result, there is a higher degree of uncertainty as to the final outcome of the potential reviews conducted by tax authorities.

b) Consolidation principles

Subsidiary undertakings are those companies in which the Parent Company, directly or indirectly, has an interest of more than 50% of the voting rights or otherwise has power to exercise control over their operations; these were included in consolidation using the full consolidation method except for those where the influence was insignificant. Subsidiaries were consolidated as of the date when the Parent Company gained control over them, and deconsolidated on the date of their disposal or loss of the controlling interest. All receivables and payables, disposals and purchases, as well as expenses, revenues, profits, and losses on transactions within the Group were eliminated.

Investments in associated undertakings represent entities in which the Parent Company has more than a 20% but less than 50% share in the share capital and voting rights and in which the Parent Company has a significant influence. Investments in associated undertakings are valued using the equity method in the consolidated financial statements. Under the equity method, investments are initially measured at cost and subsequently adjusted for post-acquisition changes in the Parent Company's share of the net assets of an entity wherein the investment was made. The profit or loss of respective investors includes their share in the profit or loss of the entity wherein the investment was made. Gains/(losses) resulting from the revaluation of associates using the equity method are disclosed as "Net gains/(losses) from investments in associated undertakings" in the income statement.

All acquisitions of subsidiaries are accounted for using the acquisition method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Parent Company in exchange for control of the acquiree, plus any costs directly attributable to the business combination. If the cost of the business combination exceeds the Parent Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised, the difference is disclosed as goodwill [Note k in Section II. – Principal Accounting Policies].

c) Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into euros and reported in the financial statements as at the exchange rate declared by the European Central Bank (ECB) valid as at the balance sheet date. Income and expenses denominated in foreign currencies are recorded in euros in the underlying accounting system of the Group and are reported in the financial statements at the actual exchange rate of the European Central Bank valid as at the date of the transaction.

Exchange rate gains (losses) from all foreign exchange transactions are included in the Statement of Comprehensive Income item "Net profit (loss) from trading instruments".

Off-balance sheet transactions denominated in foreign currency are translated into euros in the Group's off-balance sheet using the ECB spot exchange rate valid as at the balance sheet date.

The unrealised gain or loss from fixed term transactions is calculated using the anticipated forward rate based on a standard mathematical formula, which takes into account the European Central Bank spot rate and interest rates effective as at the balance sheet date and is reported in the item "Derivative financial assets" or in the item "Derivative financial liabilities" in the statement of financial position, and "Net profit (loss) from trading instruments" in the statement of comprehensive income.

d) Cash and deposits in central banks

Cash and deposits in central banks comprise cash held, and cash balances with the National Bank of Slovakia, including the compulsory minimum reserve with the National Bank of Slovakia.

The compulsory minimum reserve with the National Bank of Slovakia is a required deposit with restricted drawing to be held by all commercial banks licensed in the Slovak Republic. The interest rate is determined by the European Central Bank on a regular basis after the end of each period.

e) Government and other treasury bills

Government and other treasury bills are debt securities with maturity up to 12 months issued by the National Bank of Slovakia or the Ministry of Finance of the Slovak Republic. Accounting principles stated in paragraph f) 2a) are applied to measure and recognise government and other treasury bills from the portfolio of securities held for trading. Treasury bills from the portfolio of securities held for tradingare recognised as "Held for trading financial assets". The accounting principles stated in paragraph f) 2c) are applied to measure and recognise government and other treasury bills from the portfolio of securities at fair value through profit or loss. Treasury bills from the portfolio of securities at fair value through profit or loss are recognised as "Financial assets at fair value through profit or loss". Accounting principles stated in paragraph f) 3) are applied to measure and recognise government and other treasury bills from the portfolio of securities held to maturity. Treasury bills from the portfolio of securities held to maturity are recognised as "Held-to-maturity financial investments".

f) Financial instruments

A financial instrument is any contract that results in a financial asset in one entity and a financial liability in another.

The Group classifies financial instruments in six categories, in accordance with the Group's intention to acquire the instruments and pursuant to the Group's investment strategy, as follows:

1. Loans and receivables
2. Financial assets at fair value through profit or loss
   a. Financial assets held for trading
   b. Derivative financial instruments
   c. Financial assets at fair value through profit or loss
3. Held-to-maturity financial investments
4. Available-for-sale financial assets
5. Hedging derivatives
6. Financial liabilities

1. Loans and receivables

Loans and other receivables represent non-derivative financial assets with fixed or determinable payments unlisted in an active market. Loans are measured at amortised costs using the effective interest rate method less impairment provisions.

When signing a loan agreement, the Parent Company records the issued loan commitment on the off-balance sheet. Loans are recognised in the statement of financial position when the funds are provided to debtors. During the performance of their activities, the Parent Company records contingent liabilities with inherent credit risk. The Parent Company accounts for these contingent liabilities in off-balance sheet accounts, and records a provision for such liabilities that reflects the level of risk of issued guarantees, letters of credit, and unused credit limits as at the balance sheet date. For unused retail credit lines no provisions are recorded.

Provisions for loan impairment

Provisions are recorded to cover estimated losses from receivables for which objective evidence of impairment exists. The provision for possible loan losses is calculated to reduce loans to their recoverable amount representing expected future cash flows discounted to the present value using the original effective interest rate implicit in the loan at inception or the fair value of the related collateral. Provisions for losses from loans to customers are charged as "Provisions for impairment losses" in the statement of comprehensive income. If there is no reason to record a provision or the amount of provisions is not adequate, excessive provisions are released using the same line of the statement of comprehensive income.

The Parent Company records two types of provisions: specific and portfolio provisions. Specific provisions for identified potential losses on loans are assessed with reference to the credit standing and financial performance of the borrower and collateral (a portfolio model is used for retail provisions). Portfolio provisions cover losses that have not been individually identified, but based on historical experience it is clear that they are inherent in the portfolio at the reporting date.

Loans and advances to corporate clients are individually significant and are analysed on an individual basis. The Group adjusts the value of a corporate receivable if there is reason to believe that the receivable demonstrates characteristics that would cause the receivable to be impaired. These characteristics mainly include: overdue receivables, information that a large-scope foreclosure procedure is pending against the debtor, that the debtor is in bankruptcy, liquidation or statutory restructuring, if an identified fraud is associated with the receivable, if the receivable was restructured due to the fact that the debtor did not have sufficient funds to repay the receivable in line with the original repayment schedule, or if the Group concludes - based on the regular monitoring of the client's financial position - that the client will be unable to fully repay the amount outstanding.

The calculation of specific provisions is based on an estimate of expected cash flows reflecting estimated delinquency in loan repayments, as well as income from loan collateral. The impairment amount is determined by the difference between the loan's carrying amount and the net present value ("NPV") of the estimated cash flows and income from loan collateral discounted by the loan's original effective interest rate. Specific provisions are recorded when there is objective evidence of a loss event that occurred after initial recognition.

For loans and advances to corporate clients where no impairment was identified on an individual basis, loans and advances are divided into groups with similar credit risk characteristics and portfolio-based provisions are calculated. Portfolio-based provisions cover losses that have not yet been individually identified, but based on historical experience, are deemed to be inherent in the portfolios of the balance sheet date. The provision depends on the client rating, historical default rate for the given client rating, collateral value, and recovery rate. For groups where the Parent Company does not have a sufficiently long time period to calculate a historical default rate, the Group uses default probabilities derived from other similar groups or from RBI Group data.

For retail receivables where no impairment was identified, individually portfolio-based provisions are created using a flow rate model. Portfolio provisions cover losses that were not identified individually, but, based on historical experience, they were inherent to the portfolios as at the balance sheet date. A flow rate model (also known as a roll rate model) is the model for calculating provisions based on the principle of a percentage flow of overdue receivables into saturation status (180 days overdue). For receivables that are not in saturation status, the Parent Company applies the so-called vintage-based recovery rate with the horizon capped at 36 months. For receivables in saturation status, the Parent Company creates 100% provisions, except for collateralised loans where the collateral value, less a liquidation coefficient, is deducted for such receivables.

For both the flow rate model and the vintage based recovery, the Parent Company uses portfolio segmentation per products and their types (according to their risk characteristics), and 12-month flow rate averages are used to calculate the flow rates (if a significant change is seen in the population's behaviour, 6- or 3-month averages can be used).

The Parent Company adjusts the measurement of retail receivables on a monthly basis or when the receivable demonstrates indicators of its impairment. If the Parent Company identifies such indicators (fraud, debtor's death, foreclosure in the specific amount), the Parent Company creates a specific provision.

In line with the internal policy, according to a valid decision on ceasing the recovery of claims issued by the competent court, the Board of Directors, or other Parent Company bodies (Problem Loan Committee, Executive Committee), the Parent Company writes off its loans to customers against the recorded provision. Should the amount of the receivable written-off exceed the amount of recorded provisions, the difference is recognised through the statement of comprehensive income. Receivables written off that are still in the collection process under law are recorded in off-balance sheet accounts.

If, after the write off, the Parent Company collects additional amounts from the client or obtains control of collateral worth more than initially estimated, a recovery is recognised through the statement of comprehensive income in the caption "Provisions for impairment losses".

Loan collateral

In terms of handling collateral, the Parent Company places great emphasis mainly on valuing and revaluing individual collaterals, determining the value of pledged collateral for secured loans, determining collateral acceptability to mitigate credit risk, and collateral enforcement, should the client be in default.

The Parent Company mainly accepts the following types of collateral:
- Financial collateral
- Guarantees
- Real estates
- Chattels
- Receivables
- Life insurance

In terms of legal instruments, the Parent Company uses:
- Pledges
- Assignments of receivable intended to serve as security
- Transfers of title intended to serve as security
- Blockages of cash
- Contracts for purchase of securities
- Agreements on liability replacement

The methodology of collateral valuation and the frequency of such revaluation depend on the type of collateral and the minimum requirements pursuant to the effective legislative standards implemented in the Parent Company's internal regulations. The method of determining the value of collateral is specific for each type of collateral, and the Parent Company respects an adequate degree of prudence.

The value of pledged collateral is determined on a case-by-case basis for each type of collateral depending on the type of collateral and transaction, and individual risk characteristics. The value of pledged collateral is obtained by discounting the initial value of collateral obtained in valuation and revaluation. Factors based on which discounting factors are determined relate mainly to the enforceability of collateral if the counterparty defaults (eg type, location and condition of real estate), potential default of the security provider (eg credit quality and maturity of financial collateral), and other factors (business strategy and Parent Company orientation). The discounting factors applied are subject to regular revaluation.

The claim value of collateral is derived from the value of pledged collateral up to the amount of the current amount receivable. If the value of pledged collateral is lower than the balance of the receivable, the Parent Company will determine the claim value of collateral up to the amount of the value of pledged collateral.

The claim value of collateral contains a number of uncertainties and risks. The amounts that may be recovered in the course of liquidating the collateral for bad debts could differ from the estimated amounts, and the difference could be material.

The Parent Company's decisions on the enforcement of collateral is individual and depends on factors such as the current condition and value of the collateral, the current amount receivable, the promptness of the satisfaction of the receivable, collection-related costs etc. The relevant competent body of the Parent Company decides which security instrument will be used in the specific case.

The Parent Company mainly uses the following forms of enforcement of collateral:

- Voluntary auction
- Foreclosure procedure
- Realisation of the collateral for the receivable in a bankruptcy procedure
- Sale of receivables

2. Financial assets or financial liabilities at fair value through profit or loss

a. Held for trading financial assets

The Group has acquired held-for-trading financial assets to utilise short-term price fluctuations in order to generate profits. In this category, the Group recognises securities (equity investments, debt securities, Treasury bills, shares). Equity and debt securities, treasury bills and shares are recognised by the Group in the statement of financial position line "Held for trading financial assets".

All purchases and sales of trading securities are recognised as at the settlement date.

Held for trading financial assets are initially recognised at cost net of transaction costs and are subsequently remeasured to fair value through the statement of comprehensive income.

The Group discloses unrealised gains and losses on revaluing such assets to fair value and net interest income in the statement of comprehensive income line "Net profit (loss) from trading instruments".

Refinancing costs of trading securities is disclosed in the statement of comprehensive income line "Net profit (loss) from trading instruments". Refinancing costs represent costs of refinancing positions contracted in trading activity.

Dividend income from held for trading securities is disclosed in the statement of comprehensive income line "Net profit (loss) from trading instruments".

b. Derivative financial instruments

In this category, the Group discloses derivative financial instruments (interest rate swaps, currency swaps, index swaps, currency forwards, interest rate options, currency options, share index options, currency, interest rate and index futures and commodity derivatives).

All purchases and sales that require delivery within the time frame established by regulation or market convention ("standard way") are recognised as spot transactions. Transactions that do not meet the "standard way" settlement criteria are treated as financial derivatives.

Derivatives are recognised as "Derivative financial assets" or "Derivative financial liabilities". Certain financial derivative transactions, while providing effective economic hedges under the Parent Company's risk management policy, do not qualify for hedge accounting under the specific rules stipulated by IAS 39.

Derivatives embedded in other financial instruments or other host contracts are treated, in terms of accounting, as separate derivatives if no close linkage exists between their risks and attributes, and risks and attributes of the host contract, and if the host contract is not recognised at fair value and changes in fair value are recognised in the statement of comprehensive income.

The Group records unrealised gains and losses from the revaluation of derivative instruments to their fair values and net interest income in the statement of comprehensive income line "Net profit (loss) from trading instruments". The fair value of held for trading financial derivatives is disclosed in Note 45.

c. Financial assets at fair value through profit or loss ("FVTPL")

Based on the Group's documented risk management strategy and in accordance with its investment strategy, the Group mainly recognises debt securities in the given portfolio. The performance of these securities is evaluated on a fair value basis. The aforementioned debt securities are treated by the Group at initial recognition as financial assets at fair value through profit or loss (FVTPL) and they are recognised in the statement of financial position as "Financial assets at fair value through profit or loss".

Financial assets at fair value through profit or loss are initially recognised at cost excluding costs of transaction and are subsequently re-valued to fair value through statement of comprehensive income.

The Group recognises unrealised gains and losses from the revaluation of these assets to their fair values in the statement of comprehensive income line "Net profit (loss) from financial instruments at fair value through profit or loss".

Net interest income is accrued on a daily basis and recorded in the statement of comprehensive income line "Interest and similar income".

3. Held-to-maturity financial investments

This portfolio is a non-derivative financial asset with fixed or floating payments and fixed maturity that the Parent Company intends and is able to hold to maturity. The held-to-maturity portfolio includes debt securities in line with the approved strategy for the creation of a strategic securities portfolio. It mainly includes securities issued by the government and other creditworthy securities.

Held-to-maturity financial investments are measured at amortised cost using the effective interest rate method less impairment. Interest income and discounts and premiums on held-to-maturity securities are recognised as "Interest and similar income" in the statement of comprehensive income.

4. Available-for-sale financial assets (AFS)

The AFS portfolio includes the Group's investments in other entities, with a share of less than 20% of share capital and voting rights. The portfolio is measured at cost less impairment provisions, which are recognised as "Other operating profit (loss)" in "Other expenses from available-for-sale financial instruments" in the statement of comprehensive income, as their market price in an active market cannot be reliably measured.

The portfolio mainly includes shares in privately held companies for which no market exists or companies in which participation is mandatory (Burza cenných papierov v Bratislave a. s., S.W.I.F.T. s. c., VISA INC., USA). As a result, in respect of these shares the Group applies the level 3 for fair value measurements (see Note f). In 2011, there were no changes in one or more input data that would have an impact on the fair value change. Therefore, and also due to the insignificance of the given portfolio, the Group does not disclose any detailed requirements for reconciling opening and closing balances with separately described changes during the period. The Group has no intention to sell or otherwise dispose of the given participation shares in the near future. For companies against which bankruptcy proceedings are underway, 100% provisions are created and the participation shares will be written off after the completion of the bankruptcy proceedings.

Dividend income from available-for-sale financial assets is reported as "Interest and similar income" in the statement of comprehensive income. Profit or loss from the sale of financial assets available-for-sale is recognised in the statement of comprehensive income as "Other operating profit (loss)" in "Other revenues from available-for-sale financial instruments".

5. Hedging Derivatives

Hedging derivatives are derivatives which are designed in the Parent Company's strategy to hedge certain risks and which meet all classification criteria for hedging derivatives under international accounting standards. The relationship between the hedging instrument and the hedged item is documented at the origin of the hedging transaction. At the origin and during the existence of the hedging relationship the hedging effectiveness is tested so that the changes in fair values or cash flows from hedged or hedging items are set off with the final results within the range from 80% to 125%.

Fair Value Hedges

Changes in the fair value of hedging derivatives which are regarded as fair value hedges are recognised in the income statement together with any changes in the fair value of hedged assets or liabilities to which a hedge risk can be attributed. Hedge accounting is discontinued if the Group cancels the hedging relationship, derivative instrument expires or is sold, terminated, or exercised, or when the hedging relationship no longer meets the criteria for fair value hedge accounting.

The positive fair value of a hedging derivative is recognised in the statement of financial position line "Derivative financial assets". The negative fair value of a hedging derivative is recognised in the statement of financial position line "Derivative financial liabilities".

Any change in the fair value of a hedging derivative and a hedged instrument relating to the hedged risk is recognised in the statement of comprehensive income line "Net profit (loss) from trading instruments". Interest income and expenses related to the hedging derivative are recognised together with interest expenses related to the hedged instruments in the statement of comprehensive income as "Interest and similar expenses".

6. Financial Liabilities

All of the Group's liabilities, except for derivative financial liabilities and issued debt securities hedged by interest rate swaps (hedging under IAS 39), are stated at amortised cost.

Derecognition of financial instruments

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor substantially retains all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay.

If the Group substantially retains all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

The Group derecognises financial liabilities only when the Group's obligations are discharged or cancelled, or when they expire.

Inland securities in the Group's portfolio are mainly listed and traded on the Bratislava Stock Exchange; foreign securities are listed on the foreign stock exchange, where they are traded. Foreign securities are traded in an inter-bank market.

g) Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).
- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates.
- The fair values of other financial assets and financial liabilities (excluding those described above) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.
- Level 1 – fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie derived from prices).
- Level 3 – fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

An analysis of financial instruments recognised at fair value divided according to their fair value measurement levels is stated in Note 45.

With respect to the definition of the fair value of financial instruments that are not revalued to fair value, the Group applies the net present value method using the prime interest rates of individual currencies disclosed by central banks, which approximate market values. More detailed information on the methods of calculating the fair values of financial instruments not revalued to fair value is provided in Note 45.

h) Sale and repurchase agreements - repo transactions

Securities sold under sale and repurchase agreements ("repo transactions") are recorded as assets in the statement of financial position lines "Held for trading financial assets", "Financial assets at fair value through profit or loss" or "Held-to-maturity financial investments", and the counterparty liabilities are included in "Deposits from banks" or "Deposits from customers".

Securities purchased under agreements to purchase and resell ("reverse repos") are recorded as assets in the statement of financial position line "Loans and advances to banks" or "Loans and advances to customers" as appropriate.

The difference between the sale and repurchase price is treated as interest and accrued evenly over the life of the repo agreement using the effective interest rate.

i) Non-current tangible and intangible assets

Non-current tangible and intangible assets are stated at historical cost less accumulated depreciation/amortisation together with accumulated impairment losses. Non-current assets are depreciated using the straight–line method based on the estimated useful life. Tangibles in progress, land, and artwork are not depreciated.

The estimated useful economic lives (in years) are set out below:

Machinery and equipment, computers, vehicles	2 – 8
Software	Up to 10
Fixtures, fittings and equipment	6 – 10
Energy machinery and equipment	10 – 15
Optical network	25
Buildings and structures	10 – 40

j) Investment property

Investment property represents assets held by the Group in order to earn rentals or for further capital appreciation. Investment property is recognised at cost less accumulated depreciation and provisions for impairment. The net book value of investment property, depreciation charges and rentals are described in Note 21. The creation and release of provisions due to the impairment of investment property is recognised in Note 8 “Other operating profit (loss)” as “Creation of provisions for investment property” or “Release of provisions for investment property”.

The Group uses a proprietary model to determine the fair value of investment property, which is based on discounted future income from rentals less direct operating expenses. The fair value of investment property that is not leased but held for appreciation is determined using an independent appraiser’s calculation.

The estimated useful life of buildings classified as investment property is 40 years.

k) Goodwill

Goodwill represents the excess of the cost of the acquisition over the fair value of identifiable assets, liabilities and contingent liabilities of the acquired company as at the acquisition date. Goodwill is initially recognised at cost and subsequently its value is adjusted for accumulated losses from its impairment. Goodwill is tested once or several times a year provided that the events or changes in circumstances indicate that the impairment of value is in compliance with IAS 36 – Impairment of assets. Impairment of goodwill cannot be reversed in the following reporting periods.

l) Impairment of tangible and intangible assets

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount is the higher of the fair value less costs to sell and the present value of future cash flows expected to derive from the asset. If any of the amounts above exceeds the carrying amount, there is no need to estimate the other amount. If the estimated recoverable amount of an asset is lower than its carrying amount, the carrying amount of the asset shall be reduced to equal the recoverable amount. The impairment loss shall be recognised directly through the statement of comprehensive income.

m) Assets held for development and construction

The Group applies the principles of IAS 2 to assets held for development and construction that are designated for subsequent sale. The aforementioned assets are measured at the lower of the cost and the net realisable value. The Group recognises assets held for development and construction in Note 24 “Other assets” as “Assets held for development and construction”.

n) Leases

A lease is classified as a finance lease when the terms of the lease provide for transferring all the risks and rewards of ownership of the leased asset to the lessee. All other leases are classified as operating leases.

1. The Group as lessor

Amounts due from leases under finance lease are recognised as receivables at the amount of the Group's net lease investment. Finance lease income is allocated to reporting periods so as to express a constant periodic rate of return on the Group's net investment in respect of the lease.

The present value of future lease payments is recognised in the statement of financial position as "Loans and advances to customers, gross", line "Finance lease receivables".

2. The Group as lessee

Assets under finance lease are recognised as the Group's assets at fair value as at the acquisition date, or if the fair value is lower, at the present value of minimum lease payments. The relevant payable to a lessor is recognised in the statement of financial position as a finance lease payable. Finance lease payments are apportioned between financial charges and reduction of outstanding lease payable (to produce a constant periodic rate of interest on the outstanding balance). Financial charges are recognised directly in the statement of comprehensive income, unless they are allocated directly to the relevant asset. In this case, financial charges are capitalised.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which the economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of the rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which the economic benefits from the leased asset are consumed.

o) Liabilities from debt securities

Debt securities issued by the Group are stated at amortised cost using the effective interest rate method. The Group issues mortgage bonds and other debt securities. Interest expense arising on the issue of securities is included in the statement of comprehensive income line "Interest and similar expenses".

p) Subordinated debt

Subordinated debt refers to the Parent Company's external funds and, in the event of bankruptcy, composition or Parent Company's liquidation, the entitlement to its repayment is subordinated to liabilities to other creditors. The Parent Company's subordinated debt is recognised in the separate statement of financial position as "Subordinated debt". Interest expense paid on the received subordinated debt is recognised through the statement of comprehensive income in "Interest and similar expenses".

Subordinated debt is a financial liability initially measured at fair value, net of transaction costs. It is subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

q) Cash and cash equivalents in the cash flow statement

Cash and cash equivalents for the purpose of cash flow statement preparation comprise cash held and cash balances with the National Bank of Slovakia, except for the statutory minimum reserve. Cash equivalents include treasury bills with a residual maturity of up to three months, demand deposits with other banks, and short-term government bonds.

r) Provisions for liabilities

The amount of provisions for liabilities andcharges is recognised as an expense and a liability when the Group has legal or constructive obligations as a result of past events. It is probable that an outflow of resources embodying economic benefits will be required to settle such obligation and a reasonable estimate of the amount of the resulting loss can be made. Any loss resulting from the recognition of provision for liability is recognised in the statement of comprehensive income for the period.

s) Provision for employee benefits

The Parent Company has a long-term employee benefit program comprising a lump-sum retirement benefit. As at 31 December 2011, the Parent Company had 3 362 employees who were included in the program (31 December 2010: 3 336 employees).

The method of calculating the liability applies actuarial calculations, based on employee's age, number of years worked, employee turnover, mortality tables, and discount rates.

The employee benefit costs are assessed using the projected unit credit method with actuarial valuation at the balance sheet date, measured as the present value of the estimated future cash outflows discounted by interest approximating yield on investment grade fixed income securities. Actuarial gains and losses from the post-employment defined benefit obligation are charged to the statement of comprehensive income in the current year in "General administrative expenses". The provision for employee benefits is recognised in the statement of financial position as "Provision for liabilities".

Key assumptions used in actuarial valuation

Long-term employee provisions were calculated in accordance with the currently valid mortality tables issued by the Statistical Office of the Slovak Republic.

Real annual discount rate	4 %
Annual future real rate of salary increases	2 %
Annual employee turnover	7 – 13 %
Retirement age	Based on valid law

The Group also has a defined contribution plan for employees. All company contributions are included in personnel expenses (see note 7).

t) Accrued interest

Accrued interest income and expense related to financial assets and liabilities are presented together with the corresponding assets and liabilities in the statement of financial position.

u) Recognition of income and expense

1) Interest income and expense, and interest related charges

Interest income and expense, and interest related charges arising on all interest-bearing instruments except for "Held for trading financial assets" are accrued in the statement of comprehensive income using the effective interest rate method.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period.

Interest income from "Held for trading financial assets" is recognised in the statement of comprehensive income as "Net profit (loss) from trading instruments".

Interest income (expense) from securities includes revenues from coupons with fixed and floating rates, and amortised discount or premium.

2) Fees and commissions income/expense

Fees and commissions that do not form part of the effective interest rate are recognised as expense and income in the statement of comprehensive income in "Net fees and commission income" from financial assets and liabilities not restated to fair value on an accrual basis as earned.

3) Dividend income

Dividend income is recognised when the dividend is approved to the Group in the statement of comprehensive income line "Interest and similar income".

v) Basic and diluted earnings per share

The Group reports earnings per share attributable to the holders of each class of shares. The Group calculated earnings per share as profits attributable to each class of shares divided by the weighted average number of each class of shares outstanding during the reporting period.

The profit attributable to each class of shares is determined based on the face value of each class of shares in relation to the percentage of the total face value of all shares.

The Group does not report diluted earnings per share as there were no dilutive potential ordinary shares in issue as at 31 December 2011 nor 31 December 2010.

w) Taxation and deferred taxation

The Group calculated income tax in accordance with the provisions of the relevant legislation of the Slovak Republic, based on taxable profit. Taxable profit differs from profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted until the reporting date.

Deferred income tax is provided, using the balance sheet liability method, for temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The tax rate anticipated for future periods was used to determine deferred income tax, ie 19%. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

The Group recognises the due corporate income tax in the statement of financial position line "Current tax asset" or "Current tax liability" and the deferred tax in "Deferred tax asset" or "Deferred tax liability".

Owing to their immateriality the Group recognises "Current tax liability" and "Deferred tax liability" in "Other payables".

The Group is a payer of various local taxes and value added tax (VAT). Various local taxes are recognised in the statement of comprehensive income line "Other operating profit (loss)". VAT that is non-deductible for the Group is recognised as "General administrative expenses" and VAT on the acquisition of non-current tangible and intangible assets is included in the cost of non-current tangible and intangible assets.

III. SEGMENT REPORTING

When reporting by segment, the Group applies IFRS 8 – "Operating Segments". The accounting principles related to the reported segments are consistent with the Group's accounting principles.

The basis for classifying by segment is an internal principle for the Parent Company management that is customer oriented. It also reflects the segmentation principle of the majority shareholder (Raiffeisen Bank International AG). The segmentation applied by the Parent Company is as follows:

- Corporate clients
- Financial institutions and public sector
- Retail customers
- Investment Banking and Treasury
- Equity investments

Corporate companies include all resident and non-resident companies including state-owned companies. In terms of products, corporate clients were mainly provided with investment and operating loans in the form of instalment credits or overdraft facilities, factoring and documentary financing, project financing of commercial real estate projects, office premises, construction of shopping centres etc.

Financial institutions and the public sector consist of:

Banks/Supra-Nationals, which include all local and international banks and their majority-owned subsidiaries in the country and all institutions such as the World Bank, EBRD, EIB, IMF, and KfW. In terms of products on the side of assets, exposures to banks mainly included nostro accounts and term placements made. On the side of liabilities, they included mainly loro accounts, term placements received and loans received from banks.

Brokers & Asset Management Companies, which include foundations, all broker houses, mutual fund companies, leasing companies, investment banks, and other banks like these entities. Insurance companies include, for example, pension funds. These entities were mainly provided with investment and operating loans.

Public sector, which includes all government entities, ministries, municipalities, and similar institutions. Corporations that are owned by the public sector (state owned) are shown under the corporate clients segment. Banks that belong to the government are defined as financial institutions. Securities of the Slovak Republic are disclosed in the Investment Banking and Treasury segment. Embassies and trade representatives are shown in this segment.

Retail Customers consist of Individuals (Consumers), which include all consumer customers, from low-income to high-income. The retail customers segment also includes micro businesses. For private banking, individuals are defined locally, with special treatment to individually manage their assets. In terms of products, retail customers – micro businesses and sole traders – were mainly provided with operating loans called BusinessÚverTB Expres and BusinessÚverTB Comfort, company credit cards (VISA Standard/Gold/Platinum, MercedesCard, AMEX, Diners Club) and others. Retail customers – households were mainly provided with mortgage loans, equity home loans, HypotékaTB, Bezúčelový úverTB Classic, Bezúčelový úverTB Garant, private credit cards (VISA Standard/Gold/Platinum, MercedesCard, AMEX, Diners Club) and others. Retail customers placed their financial funds mainly in current accounts and term deposits.

Treasury and Investment Banking consist of business transactions conducted on the Group's own accounts and risk that are originated from managing market risk positions like FX-dealing, securities and derivatives trading, money market trading, liquidity management and funding, strategic positioning (investment portfolio), interest rate gapping (maturity transformation).

Segment reporting is based on the schemes of contribution margins that are calculated as a basis for the management of the Parent Company. In the schemes, revenues and expenses are allocated under the principles of causality, ie revenues and expenses are allocated to individual segments based on the place of their origin.

General administrative expenses consist ofdirect and indirect expenses. Direct expenses (personnel expenses and other administrative expenses) are allocated as per individual segments and indirect expenses are allocated as per the approved ratios.

The structure of items presented in Note III "Segment Reporting" is consistent with similar items of the statement of comprehensive income.

Geographically, operating profit was primarily generated by the provision of banking services in the Slovak Republic. Some assets and liabilities are placed outside the Slovak Republic. The summary of the most significant exposures of total assets and liabilities to customers in foreign countries is included in Note 37 "Foreign assets and liabilities". The Group decided not to report the total amount of revenues from foreign entities owing to their immateriality.

The Parent Company's management monitors interest income of individual segments on a net basis.

The consolidated statement of comprehensive income and other indicators by segment as at 31 December 2011:

(in EUR thousands)	Corporate customers	Financial institutions and public sector	Retail customers	Investment and treasury banking	Equity investments and other	Total
Net interest income	86 564	7 630	168 977	5 381	22 279	290 831
Provisions and provisions for losses	(11 632)	(342)	(3 118)	-	-	(15 092)
Net interest income after provisioning	**74 932**	**7 288**	**165 859**	**5 381**	**22 279**	**275 739**
Net fees and commissions income	15 530	1 481	83 440	-	3 224	103 675
Net profit (loss) from financial trading instruments	9 115	676	6 676	(1 364)	-	15 103
Net profit (loss) from financial instruments at fair value through profit or loss	-	-	-	(2 784)	-	(2 784)
Net profit (loss) from investments in associated undertakings	-	-	-	-	1 301	1 301
General administrative expenses	(45 545)	(2 954)	(165 428)	(7 411)	(2 646)	(223 984)
Other operating profit (loss)	-	-	-	-	5 605	5 605
Profit before income taxes	**54 032**	**6 491**	**90 547**	**(6 178)**	**29 763**	**174 655**
Total assets	**3 360 500**	**199 447**	**2 838 562**	**2 478 841**	**283 461**	**9 160 811**

The consolidated statement of comprehensive income and other indicators segment as at 31 December 2010:

(in EUR thousands)	Corporate customers	Financial institutions and public sector	Retail customers	Investment and treasury banking	Equity investments and other	Total
Net interest income	69 473	4 863	187 436	1 829	4 284	267 885
Provisions and provisions for losses	(33 318)	681	(11 096)	-	(215)	(43 948)
Net interest income after provisioning	**36 155**	**5 544**	**176 340**	**1 829**	**4 069**	**223 937**
Net fees and commissions income	11 424	(67)	86 653	1 148	3 036	102 194
Net profit (loss) from financial trading instruments	7 828	480	8 046	(2 077)	-	14 277
Net profit (loss) from financial instruments at fair value through profit or loss	-	-	-	1 689	-	1 689
Net profit (loss) from investments in associated undertakings	-	-	-	-	296	296
General administrative expenses*	(32 542)	(3 297)	(172 892)	(12 050)	(675)	(221 456)
Other operating profit (loss)*	-	-	-	-	3 130	3 130
Profit before income taxes	**22 865**	**2 660**	**98 147**	**(9 461)**	**9 856**	**124 067**
Total assets	**3 039 952**	**108 972**	**2 658 695**	**2 951 466**	**3 029**	**8 762 114**

* As at 31 December 2011, the Group adjusted the presentation of VAT that is non-deductible for the Group from “Other operating gain (loss)” to “General administrative expenses”. The presentation of the amounts recognised as at 31 December 2010 was adjusted to ensure the consistent presentation with the 2011 disclosures.

IV. OTHER NOTES

1. Net interest income

(in EUR thousands)	2011	2010
Interest and similar income:	**367 275**	**333 824**
From loans and advances to banks	6 805	8 854
From loans and advances to central banks	1 912	1 394
From loans and advances to customers	297 825	265 776
From finance lease receivables	694	684
From held-to-maturity financial investments	56 051	51 901
From financial assets at fair value through profit or loss	5 891	6 597
From received dividends from available-for-sale financial assets	9	12
Interest and similar expenses:	**(76 444)**	**(65 939)**
On deposits from banks	(1 733)	(795)
On deposits from central banks	-	(19)
On deposits from customers	(45 074)	(32 880)
On subordinated debts	(3 890)	(3 179)
On liabilities from debt securities issued by the Group	(25 747)	(29 085)
Net interest income	**290 831**	**267 885**

2. Provisions for impairment losses

Movement in provisions for impairment losses for loans disclosed in the statement of financial position and provisions for off-balance sheet liabilities are as follows:

(in EUR thousands)	2011	2010
Specific provisions for loan receivables:	**(24 771)**	**(28 517)**
Additions to provisions	(56 477)	(71 240)
Released provisions	37 396	43 827
Written-off loans	(5 803)	(1 289)
Recovery from written-off loans	113	185
Portfolio provisions for loan receivables:	**9 222**	**(13 087)**
Additions to provisions	(469)	(17 301)
Released provisions	9 691	4 214
Specific provisions for off-balance sheet items:	**422**	**1 551**
Additions to provisions	(1 430)	(2 581)
Released provisions	1 852	4 132
Portfolio provisions for off-balance sheet items:	**35**	**(3 895)**
Additions to provisions	(189)	(4 132)
Released provisions	224	237
Total	**(15 092)**	**(43 948)**

More information on provisions for loan losses and provisions for off-balance sheet items are disclosed in Notes 14 and 29, respectively.

3. Net fees and commission income

(in EUR thousands)	2011	2010
Fees and commission income:	**125 564**	**122 177**
From payment transfers business	75 048	73 373
From credit processing and guarantee business	17 563	17 297
From securities business	5 410	6 008
From activities regarding management of investment and pension funds	21 347	19 742
From activities regarding mediation for third parties	3 378	3 859
For other banking services	2 818	1 898
Fees and commission expense:	**(21 889)**	**(19 983)**
From payment transfers business	(18 531)	(17 104)
From credit processing and guarantee business	(1 007)	(487)
From securities business	(358)	(826)
From activities regarding management of investment and pension funds	(667)	(602)
From activities regarding banknotes, foreign exchange and coins	(142)	(164)
For other banking services	(1 184)	(800)
Net fees and commission income	**103 675**	**102 194**

4. Net profit (loss) from trading instruments

(in EUR thousands)	2011	2010
Interest-rate contracts – Securities:	**1 264**	**6 487**
Interest income, net	8 202	7 759
Revaluation to fair value	(3 161)	249
Profit (loss) from securities sold	123	154
Refinancing costs	(3 903)	(1 682)
Dividends	3	7
Interest-rate contracts – Liabilities from debt securities:	**(1 404)**	**579**
Revaluation to fair value	(1 404)	579
Interest-rate contracts – Derivatives:	**(2 423)**	**(9 089)**
Interest income (expense)	4 087	16 056
Realised profit (loss) from derivatives	135	168
Revaluation to fair value	(7 895)	(24 724)
Revaluation to fair value – derivatives to hedge fair value	1 250	(589)
Currency contracts:	**14 635**	**(1 946)**
Realised profit (loss) from derivatives	5 523	(746)
Revaluation to fair value of derivatives	9 127	(1 239)
Exchange differences from securities held for trading	(15)	39
Index-related contracts:	**(462)**	**(112)**
Revaluation to fair value – securities	-	5
Profit (loss) from securities sold	(84)	(1)
Realised profit (loss) from derivatives	(285)	160
Revaluation to fair value – derivatives	(93)	(276)
Commodity contracts:	**66**	**47**
Realised profit (loss) from derivatives	63	8
Revaluation to fair value – derivatives	3	39
Foreign exchange gains (losses)	**3 427**	**18 311**
Total	**15 103**	**14 277**

5. Net profit (loss) from financial instruments at fair value through profit or loss ("FVTPL")

(in EUR thousands)	2011	2010
Interest-rate contracts – Securities:		
Revaluation to fair value	(2 784)	1 688
Profit (loss) from securities sold	-	1
Total	**(2 784)**	**1 689**

6. Net profit (loss) from investments in associated undertakings

(in EUR thousands)	2011	2010
From investments in associated undertakings	1 301	296
Total	**1 301**	**296**

7. General administrative expenses

The Group's general administrative expenses comprise staff expenses, other general expenses, depreciation, amortisation, and write-downs of non-current tangible and intangible assets. Such expenses break down as follows:

(in EUR thousands)	2011	2010
Staff expenses:	**(109 312)**	**(106 456)**
Wages and salaries	(84 293)	(81 515)
Social security costs	(23 573)	(22 021)
Other social expenses	(2 119)	(2 797)
(Creation) release of provisions for anniversaries and other loyalty benefits	673	(123)
Other general expenses:	**(94 232)**	**(92 846)**
Costs on premises	(18 246)	(18 283)
Costs on information technology	(17 447)	(17 854)
Communication costs	(7 013)	(7 609)
Legal and consultancy costs	(5 551)	(5 103)
Of which: Costs of audit firm's services in respect of an audit of the financial statements	(329)	(341)
Of which: Costs of audit firm's services in respect of tax advisory services	-	(14)
Of which: Costs of audit firm's services in respect of other assurance services	(60)	-
Advertising and entertainment expenses	(11 362)	(9 977)
Deposits guarantee fund	(7 236)	(7 268)
Consumption of stationeries	(2 591)	(2 754)
Transport and processing of cash	(636)	(597)
Travelling expenses	(1 561)	(1 879)
Education of employees	(999)	(1 618)
VAT	(12 311)	(10 584)
Sundry administrative expenses	(9 279)	(9 320)
Depreciation and amortisation of non-current tangible and intangible assets:	**(20 440)**	**(22 154)**
Non-current tangible assets	(12 609)	(15 702)
Non-current intangible assets	(7 831)	(6 452)
Total	**(223 984)**	**(221 456)**

As at 31 December 2011, the Group adjusted the presentation of VAT that is non-deductible for the Group, from Note 8 "Other operating gain (loss)" to Note 7 "General administrative expenses". The presentation of the amounts reported as at 31 December 2010 was adjusted for the purposes of consistent presentation with the 2011 figures.

The Group does not have pension arrangements separate from the state pension system of the Slovak Republic. Pursuant to Slovak legal regulations, an employer is obliged to pay contributions to social security, health insurance, medical insurance, accident insurance, unemployment insurance, and contributions to a guarantee fund set as a percentage of gross salary. These expenses are charged to the statement of comprehensive income in the period in which the employee was entitled to a salary.

8. Other operating profit (loss)

Other operating profit (loss) comprises revenues and expenses from non-banking activities, disposal of non-current tangible and intangible assets, creation and release of litigation provisions, other taxes and charges and other revenues and expenses from non-banking activities:

(in EUR thousands)	2011	2010
Revenues from non-banking activities	**19 196**	**11 483**
Revenues from release of litigation provisions	2 242	999
Revenues from disposals of tangible and intangible assets	7 803	1 833
Other revenues from non-banking activities	9 151	8 651
Expenses arising from non-banking activities	**(14 151)**	**(7 875)**
Other taxes and charges	(315)	(252)
Creation of litigation provisions	(2 303)	(5 338)
Creation of provisions for investment property	(3 007)	-
Disposals of tangible and intangible assets	(8 526)	(2 285)
Other operating income	**3 511**	**1 392**
Other operating expenses	**(2 951)**	**(1 870)**
Total	**5 605**	**3 130**

As at 31 December 2011, the Group adjusted the presentation of VAT that is non-deductible for the Group. The VAT was transferred from Note 8 “Other operating gain (loss)” to Note 7 “General administrative expenses”. The presentation of the amounts recognised as at 31 December 2010 was adjusted for the purposes of presentation consistent with the 2011 figures.

9. Income taxes

(in EUR thousands)	2011	2010
Current tax expense	(34 892)	(33 959)
Deferred tax (expense)/benefit	(679)	4 057
Total	**(35 571)**	**(29 902)**

Slovak legal entities must individually report taxable income and remit corporate income taxes thereon to the appropriate authorities. In 2011, the corporate income tax rate amounted to 19% (2010: 19%).

The tax on pre-tax profit differs from the theoretical tax that would arise if the valid income tax rate was applied as follows:

(in EUR thousands)	2011	2010
Income before tax	**174 655**	**124 067**
Theoretical tax calculated at the tax rate of 19%	33 184	23 573
Tax effects of:		
Non-taxable income	(3 052)	(1 661)
Non-deductible expenses	5 254	1 482
Provisions for assets and provisions for liabilities, net	2	1 366
Additional taxation from previous periods	(23)	164
Creation/(release) of provisions for uncertain utilisation of deferred tax assets	(1 686)	4 494
Effect of non-tax losses	36	89
Effect of consolidation	1 856	395
Income tax expense	**35 571**	**29 902**
Effective tax for the reporting period	**20.37 %**	**24.10 %**

Deferred tax assets and liabilities as at 31 December 2011 and as at 31 December 2010 relate to the following items:

	Book value	Tax value	Temporary difference (gross)	2011	2010
Deferred tax assets					
Loans and advances to customers (net of impairment provisions)	6 169 142	6 354 243	186 267	35 391	38 496
Other assets	34 963	35 034	71	13	36
Provisions for liabilities and charges	35 383	-	9 322	1 771	1 894
Other liabilities	45 434	27 952	17 482	3 322	2 978
Total				**40 497**	**43 404**
Deferred tax liabilities					
Non-current tangible assets	88 638	77 538	11 100	(2 108)	(2 650)
Total				**(2 108)**	**(2 650)**
Net deferred tax asset/(liability)				**38 389**	**40 754**
Allowance for uncertain realisation of deferred tax asset				(22 193)	(23 879)
Net deferred tax asset/(liability)				**16 196***	**16 875***

* represents a deferred tax asset net of a deferred tax liability disclosed in Note 30

As at 31 December 2011, the Group did not recognise deferred tax assets of EUR 22 193 thousand (2010: EUR 23 879 thousand), which mainly related to tax-deductible temporary differences resulting from provisions, due to their uncertain timing and realisation in future reporting periods.

10. Earnings per share

2011 (in EUR thousands)	Ordinary shares* Face value EUR 800	Ordinary shares Face value EUR 4 000	Preference shares Face value EUR 4
Profit after tax in the accounting period attributable to	103 606	19 895	15 583
Weighted average number of shares outstanding during the period	54 549	2 095	1 640 932
Earnings per share in EUR	**1 899**	**9 497**	**9**

* In 2011, the Parent Company increased the share capital by the subscription of new ordinary shares. The 2011 issue holders are entitled to the same share in profit reported by the Group for 2011 as if they were shareholders during the entire year.

2010 (in EUR thousands)	Ordinary shares Face value EUR 800	Ordinary shares Face value EUR 4 000	Preference shares Face value EUR 4
Profit after tax in the accounting period attributable to	69 642	14 527	9 996
Weighted average number of shares outstanding during the period	50 216	2 095	1 441 479
Earnings per share in EUR	**1 387**	**6 934**	**7**

The process and methodology of the calculation of earnings per share is described in Note II.v).

11. Cash and deposits in central banks

(in EUR thousands)	2011	2010
Cash in hand	75 421	65 175
Balances at central banks:	273 866	86 540
Obligatory minimum reserves	33 863	86 540
Overnight deposits with the NBS	240 003	-
Total	**349 287**	**151 715**

The minimum obligatory reserve is maintained as an interest bearing deposit under the regulations of the National Bank of Slovakia. The amount of the reserve depends on the level of deposits accepted by the Parent Company. The Parent Company's ability to withdraw the reserve is restricted by statutory legislation, and therefore it is not included in "Deposits with the National Bank of Slovakia repayable on demand" for the purposes of cash flow statement preparation (see Note 34).

12. Loans and advances to banks

(in EUR thousands)	2011	2010
Giro and interbank clearing business	112 589	48 681
Money-market business	39 596	446 896
Other loans to banks	16 787	34 909
Total	**168 972**	**530 486**

Loans and advances to banks broken down along geographical lines:

(in EUR thousands)	2011	2010
Slovak Republic	2 776	16 881
Other countries*	166 196	513 605
Total	**168 972**	**530 486**

* For further information on the Group's exposure to other states, see Note 37.

An overview of the quality of loans extended to banks is stated in Note 46 – Risk Report.

13. Loans and advances to customers, gross

Analysis of loans and advances to customers:

(in EUR thousands)	2011	2010
Overdraft loans and current account overdrafts	904 679	829 776
Receivables from credit cards	92 264	91 479
Factoring and loans backed by bills of exchange	50 599	71 867
Housing loans	853 681	583 175
Mortgage loans	795 611	844 717
American mortgages	390 969	363 599
Consumer loans	244 687	19 875
Finance lease receivables	17 064	203 744
Investment, operating and other loans	3 007 501	2 761 038
Total	**6 357 055**	**5 769 270**

As of 31 December 2011, the total amount of syndicated loans sponsored by the Parent Company represented EUR 423 206 thousand (31 December 2010: EUR 263 219 thousand). The Parent Company's contribution represented EUR 183 148 thousand (31 December 2010: EUR 114 452 thousand). Syndicated loans are included in "Investment, operating and other loans".

Analysis of loans by customer group:

(in EUR thousands)	2011	2010
Public sector	16 101	17 011
Corporate clients	3 629 023	3 368 566
Retail clients	2 711 931	2 383 693
Total	**6 357 055**	**5 769 270**

Analysis of loans by contractual maturity period:

(in EUR thousands)	2011	2010
Short-term loans (up to 1 year)	1 637 496	1 587 858
Medium-term loans (1 year to 5 years)	1 010 186	973 994
Long-term loans (over 5 years)	3 709 373	3 207 418
Total	**6 357 055**	**5 769 270**

Analysis of loans and advances to customers by geographical segment:

(in EUR thousands)	2011	2010
Slovak Republic	6 265 127	5 663 709
Other countries	91 928	105 561
Total	**6 357 055**	**5 769 270**

An overview of the quality of loans extended to customers is stated in Note 46 – Risk Report.

14. Impairment losses for loans and advances

The movement in provisions for loan losses during 2011 is as follows:

(in EUR thousands)	As at 1 January 2011	Allocated	Released	Used	Transfers, exchange differences	As at 31 December 2011
Specific provision	**163 692**	**56 477**	**(37 396)**	**(25 289)**	**2**	**157 486**
Public sector	101	225	-	-	(101)	225
Corporate clients	106 037	38 955	(27 343)	(19 512)	300	98 437
Retail clients	57 554	17 297	(10 053)	(5 777)	(197)	58 824
Portfolio provision	**39 649**	**469**	**(9 691)**	**-**	**-**	**30 427**
Corporate clients	26 161	469	(3 056)	-	-	23 574
Retail clients	13 488	-	(6 635)	-	-	6 853
Total	**203 341**	**56 946**	**(47 087)**	**(25 289)**	**2**	**187 913**

The movement in provisions for loan losses during 2010 is as follows:

(in EUR thousands)	As at 1 January 2010	Allocated	Released	Used	Transfers, exchange differences	As at 31 December 2010
Specific provision	**137 696**	**71 240**	**(43 827)**	**(1 422)**	**5**	**163 692**
Public sector	3	101	(3)	-	-	101
Corporate clients	90 493	49 915	(32 958)	(1 305)	(108)	106 037
Retail clients	47 200	21 224	(10 866)	(117)	113	57 554
Portfolio provision	**26 562**	**17 301**	**(4 214)**	**-**	**-**	**39 649**
Corporate clients	9 260	17 301	(400)	-	-	26 161
Retail clients	17 302	-	(3 814)	-	-	13 488
Total	**164 258**	**88 541**	**(48 041)**	**(1 422)**	**5**	**203 341**

15. Derivative financial assets

(in EUR thousands)	2011	2010
Positive fair value of financial derivatives for trading	**104 349**	**107 329**
Interest–rate contracts	70 915	85 887
Currency contracts	30 560	19 083
Index-related contracts	2 095	2 173
Commodity contracts	779	186
Positive fair value of financial derivatives for fair value hedging	**1 675**	**-**
Interest-rate contracts	1 675	-
Total	**106 024**	**107 329**

Fair value hedges relating to interest rate risk

The Parent Company uses interest rate swaps to hedge the interest rate risk related to issued debt securities – mortgage bonds and debentures from the debt securities portfolio. Changes in the fair values of these interest rate swaps as a result of interest rate changes set off, to a large extent, changes in the fair values of issued mortgage bonds and debentures caused by changes in risk-free interest rates. Hedging was effective during the reporting period.

With respect to the aforementioned hedging instruments, as at 31 December 2011 the Parent Company recognised a net profit in the amount of EUR 1 250 thousand. With respect to the hedging instruments, as at 31 December 2010 the Parent Company recognised a net loss in the amount of EUR 589 thousand. Net loss from hedged items that related to hedged risk represented EUR 1 404 thousand. As at 31 December 2010, the Parent Company recognised a net profit in the amount of EUR 579 thousand. Both items are recognised in Note 4 “Net profit (loss) from trading instruments”.

16. Held-for-trading financial assets

(in EUR thousands)	2011	2010
Debt securities and other fixed-interest securities	**290 925**	**253 772**
Slovak government treasury bills	128 259	84 810
Slovak government bonds	162 666	168 898
Bonds issued by other sectors	-	64
Shares, debt and other floating-rate securities	**50 437**	**22 212**
Slovak government bonds	50 137	21 742
Unit trust certificates	300	470
Total	**341 362**	**275 984**

17. Financial assets at fair value through profit or loss (FVTPL)

(in EUR thousands)	2011	2010
Debt securities and other fixed income securities	**118 084**	**196 966**
Slovak government treasury bills	-	59 598
Slovak government bonds	117 434	120 906
Bonds issued by the banking sector	650	666
Bonds issued by other sectors	-	15 796
Shares, debt and other floating-rate securities	**15 809**	**14 979**
Bonds issued by other sectors	15 809	14 979
Total	**133 893**	**211 945**

18. Held-to-maturity financial investments

(in EUR thousands)	2011	2010
Debt securities and other fixed income securities	**1 532 213**	**1 563 198**
Slovak government treasury bills	-	149 922
Slovak government bonds	1 515 219	1 374 969
Bonds issued by the banking sector	16 994	38 307
Shares, debt and other floating-rate securities	**165 267**	**177 186**
Slovak government bonds	145 245	122 207
Bonds issued by the banking sector	20 022	54 979
Total	**1 697 480**	**1 740 384**

Given the extremely low liquidity of selected Slovak government bonds, the Parent Company changed the purpose of their holding in November 2011 and reclassified the relevant securities from the financial investments for trading portfolio to the held-to-maturity financial investments portfolio.

As at the reclassification date, the fair value of reclassified debt securities amounted to EUR 80 503 thousand (including accrued interest income). As at 31 December 2011, the carrying amount of the aforementioned held-to-maturity securities represented EUR 80 752 thousand. The fair value amounted to EUR 80 192 thousand (including accrued interest income).

In 2011, until the moment of reclassification, the Parent Company recognised a net loss from revaluation in the amount of EUR 1 250 thousand in the statement of comprehensive income (2010: net gain of EUR 604 thousand). If the reclassification were not performed, as at 31 December 2011 the Parent Company would have recognised an additional net loss from the revaluation in the amount of EUR 449 thousand.

With respect to the reclassified securities there were no changes in future cash flows that would have an impact on the amount of the effective interest rate and their impairment at the end of 2011.

19. Available-for-sale financial assets

Company (in EUR thousands)	Group investment (%)	Cost	Provision	Carrying amount 31 December 2011	Carrying amount 31 December 2010
RVS, a. s.	0.68	46	(46)	-	-
SLOVAKIA INDUSTRIES a. s., Banská Bystrica	N/A	48	(48)	-	-
Burza cenných papierov v Bratislave, a. s.	0.09	10	-	10	10
S.W.I.F.T. s. c., Belgium	0.03	73	-	73	73
International Factors Group s. c., Belgium	0.72	9	-	9	9
D. Trust Certifikačná Autorita, a. s.	10.00	37	-	37	37
VISA INC., USA	0.07	515	-	515	515
Total		**738**	**(94)**	**644**	**644**

In 2011, there were no changes in provisions for available-for-sale financial assets.

20. Investments in associated undertakings

(in EUR thousands)	2011	2010
At 1 January	11 773	11 477
Share in profits of associated undertakings after tax (Note 6)	1 301	296
Total	**13 074**	**11 773**

Pridružená spoločnosť (v tisícoch €)	Majetkový podiel v %	Cena obstarania	Opravná položka	Zostatková cena	Podiel na hodnote čistých aktív k 31. 12. 2011	Podiel na hodnote čistých aktív k 31. 12. 2010
Tatra-Leasing, s. r. o.	48,00 %	3 186	-	3 186	13 071	11 770
Slovak Banking Credit Bureau, s. r. o.	33,33 %	3	-	3	3	3
Celkom		**3 189**	**-**	**3 189**	**13 074**	**11 773**

Basic financial information on associate Tatra-Leasing, s. r. o., Bratislava, is as follows:

(in EUR thousands)	2011	2010
Total assets	321 839	321 453
Total liabilities	294 608	296 933
Net assets	27 231	24 520
The Parent Company's share on net assets	**13 071**	**11 770**
Contingent liabilities and other off-balance sheet items	**11 035**	**9 957**
Interest income and similar income	18 175	19 947
Profit (loss) after tax	2 711	616
The Parent Company's share on profit (loss) after tax	**1 301**	**296**

21. Development of non-current tangible and intangible assets

Development of non-current tangible assets as at 31 December 2011:

(in EUR thousands)	Land and buildings	Machinery & equipment	Other non-current assets	Means of transport	Construction in progress	Investment property	Investment property under construction	Total
Cost								
1 January 2011	50 456	107 673	29 816	8 442	5 812	10 373	735	213 307
Additions	-	-	-	-	37 987	-	1 227	39 214
Disposals	(11 363)	(9 398)	(963)	(5 804)	-	-	-	(27 528)
Transfer from tangible assets in progress	1 812	7 996	462	1 444	(11 714)	801	(801)	-
31 December 2011	**40 905**	**106 271**	**29 315**	**4 082**	**32 085**	**11 174**	**1 161**	**224 993**
Accumulated depreciation and provisions								
1 January 2011	(20 964)	(89 793)	(22 307)	(5 312)	-	(1 446)	-	(139 822)
Depreciation charge	(2 590)	(7 416)	(1 255)	(1 265)	-	(83)	-	(12 609)
Disposals	4 851	9 216	890	4 126	-	-	-	19 083
Provision	-	-	-	-	-	(3 007)	-	(3 007)
31 December 2011	**(18 703)**	**(87 993)**	**(22 672)**	**(2 451)**	**-**	**(4 536)**	**-**	**(136 355)**
Net book value at 1 January 2011	**29 492**	**17 880**	**7 509**	**3 130**	**5 812**	**8 927**	**735**	**73 485**
Net book value at 31 December 2011	**22 202**	**18 278**	**6 643**	**1 631**	**32 085**	**6 638**	**1 161**	**88 638**

Development of non-current tangible assets as at 31 December 2010:

(in EUR thousands)	Land and buildings	Machinery & equipment	Other non-current assets	Means of transport	Construction in progress	Investment property	Investment property under construction	Total
Cost								
1 January 2010	60 033	108 220	31 512	8 794	4 874	6 562	340	220 335
Additions	-	-	-	-	12 164	-	1 064	13 228
Disposals	(2 211)	(6 993)	(2 156)	(1 426)	-	-	-	(12 786)
Transfer to investment property	(3 142)	-	-	-	-	3 142	-	-
Transfer from own use to inventories*	(7 470)	-	-	-	-	-	-	(7 470)
Transfer from tangible assets in progress	3 246	6 446	460	1 074	(11 226)	669	(669)	-
31 December 2010	**50 456**	**107 673**	**29 816**	**8 442**	**5 812**	**10 373**	**735**	**213 307**
Accumulated depreciation								
1 January 2010	(21 667)	(89 039)	(23 071)	(4 856)	-	-	-	(138 633)
Depreciation charge	(5 070)	(7 613)	(1 319)	(1 617)	-	(83)	-	(15 702)
Disposals	401	6 859	2 083	1 161	-	-	-	10 504
Transfer to investment property	1 363	-	-	-	-	(1 363)	-	-
Transfer from own use to inventories*	4 009	-	-	-	-	-	-	4 009
31 December 2010	**(20 964)**	**(89 793)**	**(22 307)**	**(5 312)**	**-**	**(1 446)**	**-**	**(139 822)**
Net book value at 1 January 2010	**38 366**	**19 181**	**8 441**	**3 938**	**4 874**	**6 562**	**340**	**81 702**
Net book value at 31 December 2010	**29 492**	**17 880**	**7 509**	**3 130**	**5 812**	**8 927**	**735**	**73 485**

* For further information see Note 24.

As at 31 December 2011, the Group did not recognise any liabilities under contracts for the purchase of non-current tangible assets (2010: EUR 0 thousand).

As at 31 December 2011, the Group owns a building that is leased to third parties at the net book value of EUR 1 641 thousand (2010: EUR 1 721 thousand). The Group used the building for own purposes until the end of 2009 and in 2010 the building was reclassified as investment property in the carrying amount of EUR 1 779 thousand. The total rentals amounted to EUR 146 thousand (2010: EUR 48 thousand) and are recognised as “Other operating profit (loss)” in line “Other revenues from non-banking activities”. Depreciation charges on the building are recognised as “General administrative expenses” in line “Depreciation and amortisation on non-current tangible and intangible assets” and amount to EUR 82 thousand (2010: EUR 83 thousand).

The building is recognised in movements on the accounts of tangible assets as “Investment property”. In addition to the building, “Investment property” also includes plots of land, which are intended for further capital appreciation.

As at 31 December 2011, the estimated fair value of investment property amounted to EUR 7 812 thousand (2010: EUR 10 003 thousand). Owing to the decrease in the fair value of investment property as at 31 December 2011, the Group recorded a provision in the amount of EUR 3 007 thousand (2010: EUR - thousand).

Insurance coverage

Non-current tangible assets are insured covering EUR 131 865 thousand against natural disaster, EUR 142 119 thousand against fire damage, EUR 124 111 thousand against water damage, and EUR 22 238 thousand against theft and vandalism. Electronic equipment is insured covering a maximum risk of EUR 24 474 thousand. Based on the effective motor hull insurance, vehicles have been insured up to EUR 9 689 thousand.

Development of non-current intangible assets as at 31 December 2011:

(in EUR thousands)	Software	Goodwill	Construction in progress	Total
Cost				
1 January 2011	80 074	10 122	7 784	97 980
Additions	-	-	9 061	9 061
Disposals	(48)	-	-	(48)
Transfer from intangibles in progress	9 747	-	(9 747)	-
31 December 2011	**89 773**	**10 122**	**7 098**	**106 993**
Accumulated amortisation				
1 January 2011	(56 967)	(1 102)	-	(58 069)
Amortisation charge	(7 831)	-	-	(7 831)
Disposals	(33)	-	-	(33)
31 December 2011	**(64 831)**	**(1 102)**	**-**	**(65 933)**
Net book value at 1 January 2011	**23 107**	**9 020**	**7 784**	**39 911**
Net book value at 31 December 2011	**24 942**	**9 020**	**7 098**	**41 060**

Development of non-current intangible assets as at 31 December 2010:

(in EUR thousands)	Software	Goodwill	Construction in progress	Total
Cost				
1 January 2010	72 572	10 122	3 793	86 487
Additions	-	-	11 496	11 496
Disposals	(3)	-	-	(3)
Transfer from intangibles in progress	7 505	-	(7 505)	-
31 December 2010	**80 074**	**10 122**	**7 784**	**97 980**
Accumulated amortisation				
1 January 2010	(50 515)	(1 102)	-	(51 617)
Amortisation charge	(6 452)	-	-	(6 452)
Disposals	-	-	-	-
31 December 2010	**(56 967)**	**(1 102)**	**-**	**(58 069)**
Net book value at 1 January 2010	**22 057**	**9 020**	**3 793**	**34 870**
Net book value at 31 December 2010	**23 107**	**9 020**	**7 784**	**39 911**

22. Current income tax asset

(in EUR thousands)	2011	2010
Tax asset – current	-	3 596
Total	**-**	**3 596**

23. Deferred income tax asset

(in EUR thousands)	2011	2010
Income tax asset – deferred	16 685	17 665
Total	**16 685**	**17 665**

Net deferred income tax asset resulted mainly from temporary deductible differences described in Note 9.

24. Other assets

(in EUR thousands)	2011	2010
Prepayments and other deferrals	4 587	4 542
Other receivables from the state budget	1 142	1 002
Values in transit	9 441	6 110
Assets held for development and construction	12 804	11 538
Other assets	6 576	8 076
Total	**34 550**	**31 268**

The Group recognises assets held for development and construction that are designated for subsequent sale as “Other assets” in line “Assets held for development and construction”. In 2010, the Group reclassified to the aforementioned item assets in the net book value of EUR 3 461 thousand which were used by the Group for its own purposes in 2009.

In “Values in transit” the Group recognises a receivable from an entity that provides services related to the operation of ATMs and cash transports.

25. Deposits from banks

(in EUR thousands)	2011	2010
Giro and interbank clearing business	14 983	12 136
Money-market business	63	4 070
Loans received	86 368	45 376
Total	**101 414**	**61 582**

Deposits from banks by geographical segment:

(in EUR thousands)	2011	2010
Slovak Republic	2 825	3 368
Other countries	98 589	58 214
Total	**101 414**	**61 582**

An analysis of loans received by type of counterparty is as follows:

Type of loan (in EUR thousands)	Currency	Type of loan according to maturity	Contractual maturity	2011	2010
Loans received from banks:					
– Commercial banks	EUR	Long-term	Jun 2014	975	1 659
– Reconstruction and development banks	EUR	Long-term	Jun 2020	54 705	15 841
– Reconstruction and development banks	EUR	Long-term	Mar 2016	30 688	27 876
Total				**86 368**	**45 376**

As at 31 December 2011, part of loans received from banks was secured by government bonds of the Slovak Republic included in the securities portfolios in the amount of EUR 83 424 thousand in favour of the following subjects (in thousand EUR):

Description (in EUR thousands)	Carrying amount of debt securities	Carrying amount of received loan	Guarantee expiry date	In favour of
Government bond EUR	83 424	54 705	Jun 2020	Reconstruction and development banks

As at 31 December 2010, part of loans received from banks was secured by government bonds of the Slovak Republic included in the securities portfolios in the amount of EUR 33 703 thousand in favour of the following subjects (in thousand EUR):

Description (in EUR thousands)	Carrying amount of debt securities	Carrying amount of received loan	Guarantee expiry date	In favour of
Government bond EUR	33 703	15 841	Jun 2020	Reconstruction and development banks

26. Deposits from customers

Deposits from customers by product group are as follows:

(in EUR thousands)	2011	2010
Current accounts	4 193 429	4 306 293
Time deposits	2 478 531	2 163 169
Savings deposits	220 746	296 007
Loans received	40 161	36 175
Total	**6 932 867**	**6 801 644**

Deposits from customers by customer segment are as follows:

(in EUR thousands)	2011	2010
Public sector	92 140	195 835
Corporate clients	2 444 095	2 339 291
Retail clients	4 396 632	4 266 518
Total	**6 932 867**	**6 801 644**

Deposits from customers by geographical segment are as follows:

(in EUR thousands)	2011	2010
Slovak Republic	6 788 332	6 683 688
Other countries	144 535	117 956
Total	**6 932 867**	**6 801 644**

Loans received by particular customer are as follows:

Type of loan (in EUR thousands)	Currency	Type of loan according to maturity	Contractual maturity	2011	2010
Loans received from customers:					
– Other financial institutions	EUR	Long-term	Jul 2017	40 161	36 175
Total				**40 161**	**36 175**

27. Derivative financial liabilities

(in EUR thousands)	2011	2010
Negative fair value of held for trading financial derivatives	**120 451**	**125 637**
Interest-rate contracts	94 996	102 041
Currency contracts	22 235	20 981
Index-related contracts	2 474	2 459
Commodity contracts	746	156
Negative fair value of financial derivatives to hedge fair value	**-**	**538**
Interest-rate contracts	-	538
Total	**120 451**	**126 175**

28. Liabilities from debt securities

(in EUR thousands)	2011	2010
Issued debt securities – mortgage bonds	702 701	691 201
Issued debt securities – bonds	50 611	28 285
Total	**753 312**	**719 486**

In 2010, the Parent Company issued mortgage bonds, issue 58, part of which is secured by an interest rate swap. The amount of secured mortgage bonds represents the face value of EUR 38 000 thousand.

In 2011, the Parent Company issued bonds – issue No. 04 – part of which is secured by an interest-rate swap. The amount of secured bonds represents a face value of EUR 39 000 thousand.

The fair value of an interest rate swap used for hedging is stated in Note 15 “Derivative financial assets”. The effect of the revaluation of mortgage bonds, bonds and interest rate swaps on the results of operations is outlined in Note 4 “Net profit (loss) from trading instruments”.

The Parent Company issued mortgage bonds with the following conditions:

Name (in EUR thousands)	Interest rate	Curr.	Number of mortgage bonds issued	Mortgage bonds unit face value in currency	Issue date	Maturity date	Coupon payment	2011	2010
MB 02	5.50%	EUR	9 874	3 319	17 Dec 2002	17 Dec 2012	Annually	32 981	33 182
MB 05	5.00%	EUR	10 000	3 319	21 May 2003	21 May 2013	Annually	34 332	34 426
MB 17	6M EURIBOR + 0.08%	EUR	paid	33 194	24 Nov 2006	24 Nov 2011	Semi-annually	-	21 605
MB 22	4.6%	EUR	500	33 194	25 Jun 2007	25 Jun 2012	Annually	16 992	16 992
MB 30	4.30%	EUR	10 000	3 319	25 Feb 2008	25 Feb 2013	Annually	34 714	34 983
MB 34	4.60%	EUR	paid	3 319	18 Jun 2008	18 Jun 2011	Annually	-	16 650
MB 35	0%	EUR	22 170	950	31 Oct 2008	31 Oct 2012	-	20 175	19 602
MB 37	6M EURIBOR + 0.20%	EUR	paid	66 388	30 Jul 2008	30 Jul 2011	Semi-annually	-	13 354
MB 40	3M EURIBOR + 0.30%	EUR	paid	1 000 000	18 Aug 2008	18 Aug 2011	Quarterly	-	49 857
MB 41	5.50%	EUR	paid	66 388	20 Aug 2008	20 Aug 2011	Annually	-	23 741
MB 46	4.05%	EUR	15 950	1 000	27 Feb 2009	27 Feb 2012	Annually	16 505	16 628
MB 47	5.01%	EUR	24 470	1 000	1 Jul 2009	1 Jul 2014	Annually	25 093	25 442
MB 48	3M EURIBOR + 1.40%	EUR	paid	1 000	14 Aug 2009	14 Aug 2011	Quarterly	-	70 224
MB 49	3.6%	EUR	389	50 000	28 Sep 2009	28 Mar 2013	Annually	19 606	19 787
MB 50	0%	EUR	8 882	1 000	19 Nov 2009	19 Nov 2013	-	8 286	8 967
MB 51	3.7%	EUR	340	50 000	1 Feb 2010	1 Aug 2013	Annually	17 574	17 574
MB 52	3M EURIBOR + 1.30%	EUR	200	100 000	3 Feb 2010	3 Feb 2013	Quarterly	20 093	20 076
MB 53	Inflation - CPTFEMU	EUR	1 000	10 000	30 Apr 2010	30 Apr 2015	Bullet payment on maturity date	10 220	10 220
MB 54	3.60%	EUR	43 248	1 000	28 Jun 2010	28 Jun 2015	Annually	44 058	43 204
MB 55	3M EURIBOR + 0.90%	EUR	2 500	10 000	1 Jun 2010	1 Jun 2012	Quarterly	25 050	25 041
MB 56	0%	EUR	50	1 000	4 Jun 2010	4 Jun 2015	-	45	-
MB 57	3M EURIBOR + 0.95%	EUR	800	100 000	30 Jul 2010	30 Jul 2012	Quarterly	80 353	80 282
MB 58	2.80%	EUR	44 865	1 000	7 Oct 2010	7 Oct 2014	Annually	45 587	43 548
MB 59	6M EURIBOR + 1.00%	EUR	2 622	10 000	18 Nov 2010	18 Nov 2013	Semi-annually	26 309	25 797
MB 60	6M EURIBOR + 1.00%	EUR	2 000	10 000	17 Dec 2010	17 Dec 2015	Semi-annually	20 022	20 019
MB 61	0%	EUR	1 665	10 000	4 Feb 2011	4 Feb 2014	-	15 594	-
MB 62	3.75%	EUR	57 997	1 000	31 Mar 2011	31 Mar 2016	Annually	59 642	-
MB 63	6M EURIBOR + 0.80%	EUR	40 000	1 000	15 Apr 2011	15 Apr 2014	Semi-annually	40 044	-
MB 64	6M EURIBOR + 0.75%	EUR	3 000	10 000	9 Jun 2011	9 Jun 2013	Semi-annually	30 047	-
MB 65	6M EURIBOR + 1.2%	EUR	4 080	10 000	17 Aug 2011	17 Aug 2014	Semi-annually	41 179	-
MB 67	3.875%	EUR	825	10 000	14 Oct 2011	14 Oct 2018	Annually	8 216	-
MB 68	5%	EUR	1 000	10 000	14 Oct 2011	14 Oct 2031	Annually	9 984	-
Total MB								**702 701**	**691 201**

The Group also issued other debt securities with the following conditions:

Name (in EUR thousands)	Interest rate	Curr.	Number of debt securities issued	Face value per debt security in currency	Issue date	Maturity date	Coupon payment	2011	2010
BOND 02	0%	EUR	Repaid	1 000	19 Nov 2009	19 Nov 2011	-	-	7 666
BOND 03	0%	EUR	255	1 000	8 Mar 2010	8 Mar 2013	-	247	239
BOND 04	3.75%	EUR	39 225	1 000	22 Sep 2011	22 Sep 2016	Annually	40 042	-
Tatra Residence02	6.00%	EUR	Repaid	3 319	31 Oct 2008	31 Oct 2011	Annually	-	10 058
Tatra Residence03	4.50%	EUR	10 000	1 000	14 Apr 2010	14 Apr 2012	Annually	10 322	10 322
Total bonds								**50 611**	**28 285**
Total liabilities from debt securities								**753 312**	**719 486**

In accordance with Act on Banks No. 483/2001 Coll., the Parent Company is obliged to finance mortgage loans at least in the amount of 90% by issuing and selling mortgage bonds. Under its decision, the NBS set special conditions for financing of mortgage loans for the Parent Company, where the mortgage loans must be financed at least in the amount of 70%. As at 31 December 2011, the Parent Company met the aforementioned condition.

Mortgage bonds and bonds are in the form of bearer securities and all mortgage bonds and other debt securities are registered securities.

The bonds are negotiable and are not subject to any pre-emptive right. The entitlement to receiving the face value plus yield is governed by generally binding legal regulations and the bond issue terms and conditions, the full wording of which is published as required pursuant to Act No. 530/1990 Coll. on Bonds as amended.

Some issued mortgage bonds of the Parent Company are quoted on the Bratislava Stock Exchange.

As at 31 December 2011 and 31 December 2010, mortgage bonds and other bonds issued by the Parent Company were not secured by any form of collateral.

29. Provisions for liabilities and charges

As at 31 December 2011 movements in provisions for liabilities and charges were as follows:

(in EUR thousands)	1 January 2011	Allocated	Released	Used	31 December 2011
Provisions for Long-service benefits	1 689	-	(673)	-	1 016
Legal disputes (Note 38)	26 067	2 303	(2 242)	(2 235)	23 893
Specific provision:	3 446	1 430	(1 852)	-	3 024
Guarantees	*2 651*	*910*	*(1 394)*	-	*2 167*
Irrevocable loan commitments	*795*	*520*	*(458)*	-	*857*
Portfolio provision for off-balance sheet items	7 485	189	(224)	-	7 450
Total	**38 687**	**3 922**	**(4 991)**	**(2 235)**	**35 383**

As at 31 December 2010 movements in provisions for liabilities and charges were as follows:

(in EUR thousands)	1 January 2010	Allocated	Released	Transfers, exchange differences	31 December 2010
Provisions for Anniversaries and other Long-service benefits	1 566	289	(166)	-	1 689
Legal disputes (Note 38)	21 728	5 338	(999)	-	26 067
Specific provision:	4 996	2 581	(4 132)	1	3 446
Guarantees	*1 406*	*2 086*	*(841)*	-	*2 651*
Irrevocable loan commitments	*3 590*	*495*	*(3 291)*	*1*	*795*
Portfolio provision for off-balance sheet items	3 590	4 132	(237)	-	7 485
Total	**31 880**	**12 340**	**(5 534)**	**1**	**38 687**

30. Other liabilities

(in EUR thousands)	2011	2010
Deferred items	1 791	1 756
Social fund	338	629
Employee liabilities	20 423	16 790
Current tax liability	1 156	183
Deferred tax liability	489	790
Other liabilities to state budget	2 220	2 033
Other liabilities	19 017	22 516
Total	**45 434**	**44 697**

The summary of social fund balances, additions, and drawings is as follows:

(in EUR thousands)	2011	2010
At 1 January	629	665
Additions	1 038	1 028
Drawing	(1 329)	(1 064)
At 31 December	**338**	**629**

Owing to insignificance, the Group classified the current and deferred tax liability as “Other liabilities” in the statement of financial position.

Movements in the current corporate income tax liability as at 31 December 2011 were as follows:

(in EUR thousands)	1 January 2011	Allocated	Used	31 December 2011
Current tax	183	34 892	(33 919)	1 156
Total	**183**	**34 892**	**(33 919)**	**1 156**

Movements in the current corporate income tax liability as at 31 December 2010 were as follows:

(in EUR thousands)	1 January 2010	Allocated	Used	31 December 2010
Current tax	146	37	-	183
Total	**146**	**37**	**-**	**183**

Movements in the deferred income tax as at 31 December 2011 were as follows:

(in EUR thousands)	1 January 2011	Allocated	Used	31 December 2011
Deferred tax	790	679	(980)	489
Total	**790**	**679**	**(980)**	**489**

Movements in the deferred income tax as at 31 December 2010 were as follows:

(in EUR thousands)	1 January 2010	Allocated	Used	31 December 2010
Deferred tax	749	41	-	790
Total	**749**	**41**	**-**	**790**

31. Subordinated debt

(in EUR thousands)	2011	2010
Subordinated debt	120 423	120 393
Total	**120 423**	**120 393**

Subordinated debt analysed by individual bank:

Type of loan (in EUR thousands)	Curr.	Type of loan by maturity	Start of loan drawdown	Contractual maturity	2011	2010
Subordinated debt from banks:						
– Commercial banks	EUR	Long-term	Sep 2007	Sep 2012	75 004	75 004
– Commercial banks	EUR	Long-term	Oct 2008	Oct 2013	45 419	45 389
Total					**120 423**	**120 393**

32. Equity

Equity, except for a profit for the current year, breaks down as follows:

(in EUR thousands)	2011	2010
Share capital – ordinary shares	48 553	48 553
Share capital – ordinary shares – subscription of new shares in 2011	8 320	-
Share capital – preference shares	6 805	6 805
Share capital – preference shares – subscription of new shares in 2011	648	-
Own shares	(116)	(76)
Share premium – ordinary shares	104 932	104 932
Share premium – ordinary shares – subscription of new shares in 2011	121 680	-
Share premium – preference shares	58 686	56 809
Share premium – preference shares – subscription of new shares in 2011	5 754	-
Share premium – own shares	(1 234)	(744)
Reserve and other funds	13 335	13 175
Retained earnings (excluding current year net profit after tax)	545 080	525 831
Total	**912 443**	**755 285**

The type, form, nature, and par value of equity shares and preference shares issued by the Parent Company:

Type	Ordinary shares	Ordinary shares - the 2011 issue	Ordinary shares	Preference shares
Form	Registered	Registered	Registered	Registered
Nature	Non-certified	Non-certified	Non-certified	Non-certified
Number	50 216 shares	10 400 shares	2 095 shares	1 863 357 shares
Par value	EUR 800	EUR 800	EUR 4 000	EUR 4
Issue No. (ISIN)	SK1110001502, 01-04 series	SK1110001502, 05 series	SK1110015510	SK1110007186 SK1110008424 SK1110010131 SK1110012103 SK1110013937 SK1110014901 SK1110016237 SK1110016591

Description of rights:

Each holder of an equity share is the Company's shareholder. Each shareholder enjoys its fundamental shareholder rights resulting from the Commercial Code and from the Parent Company's Articles, namely:

- The right to share in the Company's profit (dividend), based on the proportion of total face value of their shares to the total face value of all shareholders;
- The right to attend the General Meeting, vote at the General Meeting, ask for information thereon and explanations regarding the Company's issues and/or issues concerning the controlled entities and related to the agenda of the General Meeting, make motions at the General Meeting; and
- The right to share in the liquidation balance.

Each holder of preference shares enjoys similar rights as holders of equity shares; the only difference is that the preference shares are not equipped with the right to vote at a General Meeting, except for cases for which the law assigns voting power to such shares. Preference shares are assigned a preferential right applicable to dividends, ie if the Company generates minimum net profit in Euro equal to the number of issued preference shares, the holders of preference shares will be paid a dividend at least in the amount EUR 0.03 (in words three eurocents) per preference share.

Preference shares are subscribed and/or purchased during a subscription period which is announced by the Parent Company's management on an annual basis after the Parent Company's Annual General Meeting. The right to subscribe and/or purchase preference shares is vested in any employee who works in the Group for at least one year as at the end of a subscription period, and is employed for an unlimited period of time. Preference shares are sold by the Parent Company with a discount that is recognised in costs during a three-year period.

Voting power exercisable at the General Meeting is determined by the face value of the share, where one vote is assigned to each share at face value of EUR 800 and five voting rights to each ordinary share at face value of EUR 4 000. If the law requires voting by the preference shares' holders, their voting is conducted separately and each preference share at face value of EUR 4 is assigned one vote.

Ordinary shares are publicly tradable on stock markets, preference shares are not publicly tradable.

The following table shows the Group's contributions to consolidated share premium, equity restricted funds, and retained earnings (except for current year profits). The use of equity-restricted funds is restricted (legal reserve fund) as per the Commercial Code valid in the Slovak Republic.

(in EUR thousands)	2011	2010
Parent Company	801 480	656 108
Entities consolidated using full consolidation method	38 170	35 608
Entities consolidated using equity method	8 583	8 287
Total share premium, equity restricted funds, and retained earnings	**848 233**	**700 003**

The contribution of the Group entities to the consolidated profit after tax for the respective period:

(in EUR thousands)	2011	2010
Parent Company (bank)	146 036	91 307
Entities consolidated using full consolidation method	(8 253)	2 562
Entities consolidated using equity method	1 301	296
Consolidated profit after tax	**139 084**	**94 165**

33. Capital management

For capital management purposes, the Group defines regulatory capital, internal capital and economic capital.

Regulatory capital is the capital defined by the capital adequacy rules under Pillar 1. When quantifying regulatory capital, the Group complies with current legislation (Decree of the National Bank of Slovakia No. 4/2007 as amended), defining its structure and minimum amount. As at the balance sheet date, the Group applied BASEL II – the standardised approach and the internal ratings-based (IRB) approach for calculating capital requirements. The general internal ratings-based (IRB) approach is applied by the Group for a bulk portion of the non-retail portfolio and the advanced internal ratings-based approach for a bulk portion of the retail portfolio.

Regulatory capital, designated as own funds of the Group's financing, comprises the sum of the Group's original own funds and additional own funds less the value of deductible items. The Group does not generate any supplementary own funds. Regulatory capital is assigned for the coverage of credit risk, risks arising from the positions recorded in the Trading book (market risks), foreign exchange risk and operational risk.

The National Bank of Slovakia, as the supervising authority, requires that the Group maintain the proportion of total regulatory capital to risk-weighted assets at 8% or above. In 2011 and 2010, the Group met the above minimum capital requirement.

Capital represents such own sources of the Group's financing that are internally held and placed by the Group to cover its risks. The capital consists of capital components under the NBS Decree 4/2007 supplemented by other additional funds available to the Group. The Group's objective is to maintain the required amount of capital. For 2011, the Group met this objective.

Economic capital is the necessary capital and/or it responds to the minimum capital requirement to cover unexpected losses resulting from internal risks, which are defined by the Group as material. Economic capital ensures the financial stability of the Group at the reliability level corresponding to the Group's credibility. The benefits of the knowledge of economic capital are important for the Group, for active portfolio management, valuation, controlling etc.

The below table provides the outline of the structure of the Group's regulatory capital including the capital adequacy ratios for the years ending 31 December:

(in EUR thousands)	2011*	2010*
The original own funds (TIER 1)	**912 443**	**755 285**
Paid-up share capital	64 326	55 358
(-) Treasury shares	(116)	(76)
Share premium	291 052	161 741
(-)Share premium - treasury shares	(1 234)	(744)
Funds from profit and other capital reserves	13 335	13 175
Other specific items of the Bank's original own funds	545 080	525 831
(-) Items deductible from the original own funds	**(41 061)**	**(39 910)**
(-) Intangible assets	(41 061)	(39 910)
Additional own funds (TIER 2)	**45 000**	**120 000**
Subordinated debts	45 000	120 000
(-) Items deductible from the original and additional own funds	**(66 807)**	**(66 324)**
(-) From the original own funds	(33 404)	(33 162)
(-) From additional own funds	(33 403)	(33 162)
Total own funds	**849 575**	**769 051**

*) Since 1 January 2009 the Group applies a combination of the standardised approach and the IRB approach for calculating risk-weighted assets. In the event of a positive difference between the created provisions and expected losses, the Group may add this positive difference to the original and additional own funds. If the difference is negative, it is deducted from own funds. These negative differences are included in "Items deductible from the Group's original and additional own funds" in the amount of EUR 53 737 thousand (2010: EUR 54 555 thousand).

(in EUR thousands)	2011	2010
Adequacy of own funds (%)	**13.24**	**10.85**
Own funds	**849 575**	**769 051**
Risk-weighted assets (RWA)	**6 417 876**	**7 090 550**
RWA from receivables recorded in the Banking book	5 557 085	6 260 975
RWA from positions recorded in the Trading book	176 312	160 462
RWA from operating risk – standardised approach	661 700	669 113
RWA from foreign exchange risk	22 779	-

34. Information for Cash Flow Statement

Profit from operating activities before changes in working capital and interest received and paid is summarised as follows:

(in EUR thousands)	2011	2010
Cash flows from operating activities		
Profit before income taxes	174 655	124 067
Adjustments:	(245 285)	(174 904)
Interest expense	76 444	65 939
Interest income	(367 266)	(333 824)
Dividend income	(9)	(12)
Provisions for impairment losses on loans and advances and provisions for liabilities and charges, net	12 245	48 417
(Profit) loss on sale and other disposals of non-current assets	723	452
Unrealised (profit) loss from financial derivative instruments and held for trading securities	3 250	24 574
Unrealised (profit) loss from securities at fair value through profit or loss	2 784	(1 688)
Share in retained earnings of associated undertakings	(1 301)	(296)
Discount applicable to preference shares	2 794	2 742
Depreciation and amortisation non-current tangible and intangible assets	20 357	22 071
Depreciation and amortisation of investment property	83	83
Provision for investment property	3 007	-
(Profit)/loss from foreign exchange and other transactions with cash and cash equivalents	1 604	(3 362)
Cash flow of operating activities before changes in working capital, interest received and paid and income taxes paid	**(70 630)**	**(50 837)**

Cash and cash equivalents as at 31 December 2011, 31 December 2010, and 31 December 2009 comprise of the following:

(in EUR thousands)	2011	2010	2009
Cash in hand	75 421	65 175	71 230
State and other treasury bills due within 3 months	69 774	209 900	-
Deposits with National Bank of Slovakia repayable on demand	-	-	-
NBS overnight deposits	240 003	-	-
Giro and interbank clearing business	112 589	48 681	40 680
Total	**497 787**	**323 756**	**111 910**

35. Related parties

Related parties as defined by IAS 24 are those counterparties that represent:

a. A person or a close family member of that person is related to the Group if that person:
   - Has control or joint control over the Parent Company;
   - Has significant influence over the Parent Company; or
   - Is a member of the key management personnel of the Parent Company or a parent of the Parent Company.

b. An entity is related to the Group if any of the following conditions applies:
   - The entity and the Parent Company jointly with consolidated entities are members of the same group;
   - One entity is an associate or joint venture of the Parent Company (or an associate or joint venture of a member of the group of which the Parent Company is a member);
   - The entity and the Parent Company are joint ventures of the same third party;
   - The entity is a joint venture of a third entity and the Parent Company is an associate of the same third entity;
   - The entity is a post-employment defined benefit plan for the benefit of employees of either the Group or an entity related to the Group;
   - The entity is controlled or jointly controlled by a person identified in (a); and
   - A person who has control or joint control over the Parent Company has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely the legal form.

A number of banking transactions are entered into with related parties in the normal course of business. These transactions were carried out on commercial terms and conditions and at market rates.

The following are assets, liabilities, revenues, expenses, commitments and contingencies with related parties as at 31 December 2011:

Related Parties* (in EUR thousands)	**RBI**	**RBI Group**	**Associates**	**Statutory bodies and Supervisory Board****	**Other related parties**	**Total**
Loans and advances to banks and customers	93 513	31 179	61 530	2 132	4 694	**193 048**
Receivables from financial derivative transactions	31 673	482	-	-	-	**32 155**
Other assets	134	206	-	-	-	**340**
Deposits from banks and customers	4 530	2 420	106	2 630	-	**9 686**
Liabilities from financial derivative transactions	41 547	1 119	-	-	-	**42 666**
Subordinated debt	75 004	45 419	-	-	-	**120 423**
Other liabilities	1 697	399	-	-	-	**2 096**
Guarantees issued	19 535	24 296	3 995	-	-	**47 826**
Commitments	-	1 540	38 759	271	1 418	**41 988**
Guarantees received	28 672	14 170	-	-	-	**42 842**

*Groups of related parties under the IAS 24 definition

**Including members of RZB and RBI Boards of Directors

The following are assets, liabilities, revenues, expenses, commitments and contingencies with related parties as at 31 December 2010:

Related Parties* (in EUR thousands)	RBI	RBI Group	Associates	Statutory bodies and Supervisory Board**	Other related parties	Total
Loans and advances to banks and customers	78 647	28 025	89 554	792	4 583	**201 601**
Receivables from financial derivative transactions	18 428	2 118	-	-	-	**20 546**
Other assets	31	475	-	-	-	**506**
Deposits from banks and customers	7 186	6 963	69	3 108	-	**17 326**
Liabilities from financial derivative transactions	23 000	458	-	-	-	**23 458**
Subordinated debt	75 003	45 389	-	-	-	**120 392**
Other liabilities	82	142	-	-	-	**224**
Guarantees issued	20 158	33 295	3 921	-	-	**57 374**
Commitments	-	3 364	10 659	156	1 533	**15 712**
Guarantees received	29 319	18 466	-	-	-	**47 785**

*Groups of related parties under the IAS 24 definition

**Including members of RZB and RBI Boards of Directors

The following are revenues and expenses with related parties as at 31 December 2011:

Related Parties* (in EUR thousands)	RBI	RBI Group	Subsidiaries and associates	Statutory bodies and Supervisory Board	Other related parties	Total
Interest and similar income	446	501	1 885	45	194	**3 071**
Fees and commissions income	91	355	120	-	-	**566**
Unrealised gain (loss) on financial derivative transactions	(2 251)	(436)	-	-	-	**(2 687)**
Operating revenues	285	830	292	-	-	**1 407**
Interest and similar expenses	(1 504)	(2 524)	-	(38)	(108)	**(4 174)**
Expenses on charges and commissions	(389)	(3 870)	-	-	-	**(4 259)**
Administrative expenses	(4 978)	(2 943)	-	(3 787)**	-	**(11 708)**
Total	**(8 300)**	**(8 087)**	**2 297**	**(3 780)**	**86**	**(17 784)**

* Groups of related parties under the IAS 24 definition

** Remuneration of the members of the Board of Directors, Supervisory Board and proxies including the members of the subsidiaries' Boards of Directors

The following are revenues and expenses with related parties as at 31 December 2010:

Related Parties* (in EUR thousands)	RBI	RBI Group	Subsidiaries and associates	Statutory bodies and Supervisory Board	Other related parties	Total
Interest and similar income	1 109	231	566	13	236	**2 155**
Fees and commissions income	83	443	112	-	-	**638**
Unrealised gain (loss) on financial derivative transactions	1 555	(1 092)	-	-	-	**463**
Operating revenues	1 054	1 570	248	-	-	**2 872**
Interest and similar expenses	(1 066)	(2 178)	(7)	(30)	(77)	**(3 358)**
Expenses on charges and commissions	(917)	(3 370)	-	-	-	**(4 287)**
Administrative expenses	(4 609)	(189)	-	(3 891)**	-	**(8 689)**
Total	**(2 791)**	**(4 585)**	**919**	**(3 908)**	**159**	**(10 206)**

* Groups of related parties under the IAS 24 definition

** Remuneration of the members of the Board of Directors, Supervisory Board and proxies including the members of the subsidiaries' Boards of Directors

36. Foreign currency items

The Financial Statements contain the following volumes of assets and liabilities denominated in foreign currencies:

(in EUR thousands)	2011	2010
Assets	109 786	215 595
Of which: USD	*42 109*	*128 094*
Of which: CZK	*40 842*	*46 064*
Of which: other currencies (PLN, HUF, GBP and other)	*26 835*	*41 437*
Liabilities	366 558	243 534
Of which: USD	*218 994*	*151 025*
Of which: CZK	*41 801*	*44 478*
Of which: other currencies (PLN, HUF, GBP and other)	*105 763*	*48 031*

37. Foreign assets and liabilities

Assets and liabilities with entities outside the Slovak Republic are as follows:

(in EUR thousands)	2011	2010
Assets	340 175	721 280
Of which: Austria	*145 386*	*476 917*
Of which: Czech Republic	*52 804*	*37 568*
Of which: Germany	*38 349*	*51 367*
Of which: Netherlands	*35 453*	*42 957*
Of which: USA	*19 130*	*16 490*
Of which: Hungary	*14 112*	*24 616*
Of which: Slovenia	*10 943*	*6 784*
Of which: Great Britain	*9 003*	*13 077*
Of which: Denmark	*558*	*16 872*
Of which: Other countries (mostly EU member states)	*14 437*	*34 632*
Liabilities	461 685	389 257
Of which: Austria	*136 879*	*124 523*
Of which: Other countries (mostly EU member states)	*324 806*	*264 734*

As at 31 December 2011 and 31 December 2010, the Group did not hold in its portfolio any securities issued by central governments, central banks, other banks or corporate clients based in Portugal, Italy, Ireland, Greece and Spain. As at 31 December 2011 and 31 December 2010, the Group had no other exposure to the aforementioned entities.

As at 31 December 2011, the Group recorded loan receivables mainly from retail customers from Portugal, Italy, Ireland, Greece and Spain in the amount of EUR 2 546 thousand (31 December 2010: EUR 690 thousand).

38. Contingent liabilities and other off-balance-sheet items

The Group reports the following contingent liabilities and other off-balance sheet items:

(in EUR thousands)	2011	2010
Contingent liabilities:	**484 319**	**471 519**
From guarantees	463 385	444 978
From letters of credit	20 934	26 541
Commitments:	**2 546 401**	**2 532 664**
From irrevocable loan commitments	1 544 859	1 853 196
Up to 1 year	1 299 247	1 331 152
More than 1 year	245 612	522 044
From revocable loan commitments	1 001 542	679 468
Up to 1 year	859 853	477 499
More than 1 year	141 689	201 969
Total	**3 030 720**	**3 004 183**

Off-balance sheet commitments from guarantees represent obligations that the Group will make payments in the event that a customer cannot fulfil its obligations against third parties.

A documentary letter of credit is an irrevocable undertaking of the issuing Parent Company acting at the request of a customer (buyer) to make payment to the beneficiary (seller) or to pay or accept bills of exchange drawn by the beneficiary against stipulated documents, provided all terms and conditions of the letter of credit are complied with. The documentary letters of credit are collateralised depending on the creditworthiness of the customer and on the same basis as guarantees or loans.

The primary purpose of unused credit facilities (loan commitments) is to ensure that funds are available to a customer as required. Commitments to grant loans issued by the Parent Company represent issued loan commitments and the unused part of approved overdraft loans.

The risk associated with off-balance sheet financial commitments and contingent liabilities is assessed similarly as for loans to customers, taking into account the financial position and activities of the entity to which the Parent Company issued the guarantee and taking into account the collateral obtained. as at 31 December 2011, the Parent Company created reserves for these risks amounting to EUR 10 474 thousand (2010: EUR 10 931 thousand) (Note 29).

An overview of the quality of contingent liabilities and other off-balance sheet items is stated in Note 46 – Risk Report.

Legal disputes

In the ordinary course of business, the Group is subject to legal actions and complaints. Each dispute is subject to a special monitoring and regular re-assessment as a part of the Group's standard procedures. It is the policy of the Group not to disclose details of the pending legal actions and to rigorously defend unjustified claims. If it is probable that the Group will be required to settle the claim and a reliable estimate of the amount can be made, provisions are recorded. The total provision for litigation amount to EUR 23 893 thousand (31 December 2010: EUR 26 067 thousand), Note 29.

Contingent liabilities from operating lease

The Group recognises contingent liabilities from non-cancellable operating leases as a lessee on the off-balance sheet as follows:

(in EUR thousands)	2011	2010
Total non-cancellable payments for operating leases	**35 635**	**32 475**
Less than 1 year	9 645	11 176
1 year to 5 years	22 632	16 202
More than 5 years	3 358	5 097
Operating lease expense in other administrative costs	**12 247**	**13 371**

39. Finance lease

The movements in finance lease receivables are analysed as follows:

(in EUR thousands)	2011	2010
Gross investment	**18 793**	**22 040**
Up to 3 months	-	-
From 3 months up to 1 year	3 487	3 433
From 1 year up to 5 years	15 306	17 767
Over 5 years	-	840
Unearned finance income	**1 729**	**2 165**
Up to 3 months	156	160
From 3 months up to 1 year	446	466
From 1 year up to 5 years	1 127	1 537
Over 5 years	-	2
Net investment	**17 064**	**19 875**
Up to 3 months	(156)	(160)
From 3 months up to 1 year	3 041	2 967
From 1 year up to 5 years	14 179	16 230
Over 5 years	-	838

Finance lease receivables include lease receivables recognised as “Loans and advances to customers, gross” (Note 13).

40. Values in custody and management

(in EUR thousands)	2011	2010
Values in custody	**115 161**	**86 475**
Investment notes	38 880	36 843
Promissory notes	787	815
Merchandise and trust receipts	69 082	46 877
Gold	6 412	1 940
Values in management	**842 068**	**151 909**
Securities	842 068	151 909
Total	**957 229**	**238 384**

The Parent Company reported values received in custody and administration at fair values. Values received in custody and administration does not represent the Parent Company's property and accordingly they are not part of the Parent Company's assets.

In addition to amounts in the table above, in accordance with the depository function for Tatra Asset Management, správ. spol., a.s. (TAM), as at 31 December 2011 the Parent Company reported deposited securities in custody of the TAM Unit Trusts in the amount of EUR 772 111 thousand (as of 31 December 2010: EUR 1 025 990 thousand).

41. Assets pledged as collateral

Liabilities secured by the Group's assets:

(in EUR thousands)	2011	2010
Deposits from banks (received loans)	54 705	15 840
Total	**54 705**	**15 840**

The pledge attributable to the aforementioned liabilities comprised the following assets recognised in the statement of financial position:

(in EUR thousands)	2011	2010
Loans and advances to banks	1 191	1 364
Financial assets at fair value through profit or loss	48 643	33 703
Held-to-maturity financial investments	1 219 359	471 703
Total	**1 269 193**	**506 770**

For information on securities pledged as collateral for the Group's liabilities, see Note 25 "Deposits from banks", and Note 28 "Liabilities from debt securities".

The Parent Company opened margin accounts as a collateral for derivative transactions. The amount of cash deposited by the Parent Company in margin accounts depends on the volume and risk exposures of the deals made. The amount of cash deposited in margin accounts equals the amount of assets pledged as collateral and is recognised in "Loans and advances to banks".

The Parent Company pledged in favour of the NBS government bonds and bonds issued by the banking sector, which are held in the held-to-maturity securities portfolio in the amount of EUR 1 184 577 thousand (31 December 2010: EUR 471 703 thousand). For the pledged securities, the Parent Company can draw an intraday credit in the amount of EUR 200 000 thousand (31 December 2010: EUR 250 000 thousand) and has an additional option of refinancing in the amount of EUR 900 000 thousand. The aforementioned amounts were not drawn as at 31 December 2011 or 31 December 2010.

42. Default loan portfolio

Default loans represent the loans receivable portfolio as defined by the "International Convergence of Capital Measurement and Capital Standards" issued by the Basel Committee and known as Basel II. In the Slovak Republic, the definition of default is set forth in Article 73 of NBS Decree No. 4/2007 on banks' own funds of financing and banks' capital requirements.

To determine the client's default, the Parent Company uses mainly the following indicators also depending on the client's segment: permanent delay in repayment of a material portion of a receivable more than 90 days, declaration of early maturity, bankruptcy or insolvency, a portion of the loan receivables from the client written off, legal restructuring, suspended interest on receivables, sale of the receivables from the client resulting in a loss or an anticipated loss from a deal. For the retail portfolio, the threshold which the receivable must exceed is set in the amount of EUR 10.

There is no definition of default loans in the methodology of International Financial Reporting Standards.

The following summary analyses the default loan portfolio (balance sheet amounts) as at 31 December 2011:

(in EUR thousands)	Public sector	Corporate clients	Retail clients	Total
Default loans	225	202 427	113 298	315 950
Provisions for default loans	225	98 438	58 625	157 288
Claim value of received collateral for default loans	-	63 069	53 084	116 153

The following summary analyses the default loan portfolio (balance sheet amounts) as at 31 December 2010:

(in EUR thousands)	Public sector	Corporate clients	Retail clients	Total
Default loans	101	192 087	110 687	302 875
Provisions for default loans	101	104 532	55 678	160 311
Claim value of received collateral for default loans	-	59 516	53 356	112 872

43. Average number of staff

The following is information on the Group's average headcount:

(in EUR thousands)	2011	2010
Group employees	3 500	3 526
Of which: Members of the Board of Directors	*7*	*7*
Total	**3 500**	**3 526**

44. Derivative financial instruments

The total volumes of unsettled derivative financial instruments are as follows on 31 December 2011:

(in EUR thousand)	Nominal amounts by maturity				Fair values	
	Up to 1 year	From 1 to 5 years	More than 5 years	Total	Positive (Note 15)	Negative (Note 27)
a) Interest-rate contracts for hedging	**-**	**77 000**	**-**	**77 000**	**1 675**	**-**
OTC products:						
Interest rate swaps	-	77 000	-	77 000	1 675	-
b) Interest-rate contracts for trading	**782 616**	**1 755 675**	**804 056**	**3 342 347**	**70 915**	**(94 996)**
OTC products:						
Interest rate swaps	782 016	1 619 822	783 637	3 185 475	70 732	(94 491)
Interest rate options – buy	300	80 446	6 624	87 370	183	(380)
Interest rate options – sell	300	55 407	3 109	58 816	-	(125)
Stock exchange products:						
Interest rate futures	-	-	10 686	10 686	-	-
c) Currency contracts for trading	**1 455 318**	**72 052**	**-**	**1 527 370**	**30 560**	**(22 235)**
OTC products:						
Currency swaps	686 584	31 022	-	717 606	9 307	(6 330)
Currency forwards	390 567	30 486	-	421 053	10 482	(5 140)
Currency options-buy	190 241	5 343	-	195 584	10 771	-
Currency options-sell	186 922	5 201	-	192 123	-	(10 765)
Stock exchange products:						
Currency futures	1 004	-	-	1 004	-	-
d) Index-related contracts for trading	**-**	**239 889**	**1 299**	**241 188**	**2 095**	**(2 474)**
OTC products:						
Index options - buy	-	10 275	-	10 275	368	-
Index options - sell	-	10 246	-	10 246	-	(367)
Index swaps	-	219 368	-	219 368	1 727	(2 107)
Stock exchange products:						
Index futures	-	-	1 299	1 299	-	-
e) Commodity contracts for trading	**29 254**	**-**	**-**	**29 254**	**779**	**(746)**
OTC products:						
Commodity swaps	29 254	-	-	29 254	779	(746)
Total	**2 267 188**	**2 144 616**	**805 355**	**5 217 159**	**106 024**	**(120 451)**

The total volumes of unsettled derivative financial instruments are as follows on 31 December 2010:

(in EUR thousand)	Nominal amounts by maturity				Fair values	
	Up to 1 year	From 1 to 5 years	More than 5 years	Total	Positive (Note 15)	Negative (Note 27)
a) Interest-rate contracts for hedging	**-**	**38 000**	**-**	**38 000**	**-**	**(538)**
OTC products:						
Interest rate swaps	-	38 000	-	38 000	-	(538)
b) Interest-rate contracts for trading	**1 059 762**	**2 139 895**	**595 748**	**3 795 405**	**85 887**	**(102 041)**
OTC products:						
Interest rate swaps	1 053 398	2 083 765	587 313	3 724 476	85 726	(101 846)
Interest rate options – buy	3 182	25 115	1 612	29 909	161	-
Interest rate options – sell	3 182	25 115	1 612	29 909	-	(195)
Stock exchange products:						
Interest rate futures	-	5900	5 211	11 111	-	-
c) Currency contracts for trading	**1 153 572**	**38 854**	**-**	**1 192 426**	**19 083**	**(20 981)**
OTC products:						
Currency swaps	248 650	-	-	248 650	2 602	(1 442)
Currency forwards	369 559	3 165	-	372 724	2 482	(5 504)
Currency options-buy	246 856	17 897	-	264 753	13 999	-
Currency options-sell	287 514	17 792	-	305 306	-	(14 035)
Stock exchange products:						
Currency futures	993	-	-	993	-	-
d) Index-related contracts for trading	**-**	**164 280**	**1 298**	**165 578**	**2 173**	**(2 459)**
OTC products:						
Index options - buy	-	10 275	-	10 275	1 626	-
Index options - sell	-	10 272	-	10 272	-	(1 626)
Index swaps	-	143 733	-	143 733	547	(833)
Stock exchange products:						
Index futures	-	-	1 298	1 298	-	-
e) Commodity contracts for trading	**12 158**	**-**	**-**	**12 158**	**186**	**(156)**
OTC products:						
Commodity swaps	12 158	-	-	12 158	186	(156)
Total	**2 225 492**	**2 381 029**	**597 046**	**5 203 567**	**107 329**	**(126 175)**

45. Fair value of financial instruments

Financial assets at fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Insofar as market prices were available (which was mainly the case for securities and derivative instruments traded on stock exchanges and functioning markets), they were used. All other financial instruments were valued using internal measurement models, including present value models or accepted option price models in particular, or use was made of external expert opinions.

The following table shows a summary of financial instruments recognised at fair value divided into Level 1 to Level 3 based on fair value measurements as at 31 December 2011:

Financial assets at fair value (in EUR thousands)	Level 1*	Level 2**	Level 3***	Total
Derivative financial assets	**-**	**106 024**	**-**	**106 024**
Positive fair value of financial derivative instruments for trading	-	104 349	-	104 349
Positive fair value of financial derivative instruments for hedging	-	1 675	-	1 675
Held-for-trading financial assets	**105 121**	**236 241**	**-**	**341 362**
Debt securities and other fixed income securities	54 684	236 241	-	290 925
Shares, debt and other floating rate securities	50 437	-	-	50 437
Financial assets at fair value through profit or loss	**58 918**	**74 975**	**-**	**133 893**
Debt securities and other fixed income securities	58 918	59 166	-	118 084
Shares, debt and other floating rate securities	-	15 809	-	15 809
Available-for-sale financial assets	**-**	**-**	**644**	**644**
Available-for-sale securities	-	-	644	644
Total	**164 039**	**417 240**	**644**	**581 923**

Financial liabilities at fair value (in EUR thousands)	Level 1	Level 2	Level 3	Total
Derivative financial liabilities	**-**	**120 451**	**-**	**120 451**
Negative fair value of financial derivative instruments for trading	-	120 451	-	120 451
Total	**-**	**120 451**	**-**	**120 451**

* Level 1 – derived from listed prices on active markets.

** Level 2 – derived on the basis of active markets other than prices for identical assets or liabilities.

*** Level 3 – inputs for assets or liabilities, which are not based on observable market data (unobservable inputs).

As the recent market quotation is not available, the Group transferred a portion of fixed-income debt securities from Level 1 to Level 2 in the amount of EUR 53 907 thousand as at 31 December 2011.

The following table shows a summary of financial instruments recognised at fair value divided into Level 1 to Level 3 based on fair value measurements as at 31 December 2010.

Financial assets at fair value (in EUR thousands)	Level 1*	Level 2**	Level 3***	Total
Derivative financial assets	**-**	**107 329**	**-**	**107 329**
Positive fair value of financial derivative instruments for trading	-	107 329	-	107 329
Held-for-trading financial assets	**143 194**	**132 790**	**-**	**275 984**
Debt securities and other fixed income securities	142 724	111 048	-	253 772
Shares, debt and other floating rate securities	470	21 742	-	22 212
Financial assets at fair value through profit or loss	**60 986**	**150 959**	**-**	**211 945**
Debt securities and other fixed income securities	60 986	135 980	-	196 966
Shares, debt and other floating rate securities	-	14 979	-	14 979
Available-for-sale financial assets	**-**	**-**	**644**	**644**
Available-for-sale securities	-	-	644	644
Total	**204 180**	**391 078**	**644**	**595 902**

Financial liabilities at fair value (in EUR thousands)	Level 1	Level 2	Level 3	Total
Derivative financial liabilities	**-**	**126 175**	**-**	**126 175**
Negative fair value of financial derivative instruments for trading	-	125 637	-	125 637
Negative fair value of financial derivative instruments for hedging	-	538	-	538
Total	**-**	**126 175**	**-**	**126 175**

* Level 1 – derived from listed prices on active markets.

** Level 2 – derived on the basis of active markets other than prices for identical assets or liabilities.

*** Level 3 – inputs for assets or liabilities, which are not based on observable market data (unobservable inputs).

Financial assets recognised at amortised cost

Fixed-interest receivables from and payables to banks or customers were re-measured to fair values different from their carrying amount in the statement of financial position only if they had a remaining term of more than one year. Variable-rate receivables and payables were only taken into account if they had an interest rollover period of more than one year. Only in those cases does discounting based on an assumed interest rate in line with market rates have a significant effect.

(in EUR thousands)	Fair value 2011	Carrying amount 2011	Difference 2011	Fair value 2010	Carrying amount 2010	Difference 2010
Assets						
Loans and advances to banks, net	168 972	168 972	-	530 486	530 486	-
Loans and advances to customers, net	6 595 607	6 169 142	426 465	6 065 651	5 769 270	296 381
Held-to-maturity financial investments	1 690 205	1 697 480	(7 275)	1 776 567	1 740 384	36 183
Investments in subsidiary and associated undertakings	13 074	13 074	-	11 773	11 773	-
Liabilities						
Deposits from banks	101 414	101 414	-	61 582	61 582	-
Deposit from customers	6 940 944	6 932 867	8 077	6 804 236	6 801 644	2 592
Liabilities from debt securities	748 002	753 312	(5 310)	727 527	719 486	8 041
Subordinated debt	120 423	120 423	-	120 393	120 393	-

46. Risk report

Credit risk

The Group bears a credit risk, ie the risk that the counterparty will not be able to repay in full the amounts owed at their maturity. The Group classifies loan exposure borne by the Group by setting limits of risk accepted with respect to one debtor, or a group of debtors, and with respect to individual countries. The aforementioned risks are monitored on a regular basis and reviewed at least annually. Exposure to one debtor including banks and securities dealers is also limited by partial limits set for balance sheet and off-balance sheet exposures, and by daily limits of exposure in relation to items traded, such as forward foreign currency contracts. The actual exposure is compared to set limits on a daily basis.

The loan exposure is managed based on regular analyses of the debtor's and potential debtors' ability to repay the principal amount and interest, and based on potential adjustments to such loan limits. Credit risks are also partially managed by collaterals and guarantees received from private individuals or legal entities.

Retail debtors are assessed by the Parent Company using the scoring models developed for individual products. Credit risk in the retail portfolio is managed by the following main tools: credit scoring is a tool used by the Parent Company in the loan decision process for private individuals and also for small companies. The next important tool in the loan approval process is the system of underwriting by specialists whose goal is to optimise revenues from loans to the risk taken by the Parent Company. The regular monitoring of the existing portfolio quality and trends together with appropriate strategies to secure the quality of the existing portfolio are also very important part of risk management that significantly contribute to retaining portfolio quality and to targeted level of risk charges.

When collecting receivables, the Parent company uses a very broad scale of tools and collection strategies depending on the amount and type of receivable. To collect receivables the Parent company uses both internal and external resources.

In the case of unsuccessful collection of receivables from clients, the receivables are subsequently forwarded to external agencies specialising in the enforcement of receivables through courts. Receivables with higher amounts and specific receivables are dealt with by an in-house expert team in co-operation with the legal department and other professional units of the Parent company.

As part of credit risk monitoring and management, the Parent Company also closely observes the area of exposure and residual risks.

Exposure risk represents the risk resulting from the concentration of the Parent Company's transactions with an entity, a group of economically-related parties, state, geographical area, industry sector, collateral provider etc. The risk is closely related to both exposures in the Banking book and exposures in the Trading book. In order to manage exposure risk effectively, the Parent Company's objective is to focus on quality portfolio management and its adequate diversification while adhering to set exposure limits (large assets' exposure and other). Simultaneously, the Parent Company develops methods for exposure risk quantification.

Residual risk represents the risk stemming from insufficient enforceability of rights arising to the Parent Company from received security against credit risk. The Parent Company eliminates this risk in particular by means of consistently observing legal and operational requirements, and conservative valuation and revaluation methods, and by applying appropriate discounts depending on the type and quality of the received collateral.

The table below shows the maximum amount of credit risk regardless of received collateral:

(in EUR thousands)	**2011**	**2010**
Credit risk related to balance sheet assets:		
Loans and advances to banks	168 972	530 486
Loans and advances to customers, net	6 169 142	5 565 929
Derivative financial assets	106 024	107 329
Held for trading securities	341 362	275 984
Financial assets at fair value through profit or loss	133 893	211 945
Held-to-maturity financial investments	1 697 480	1 740 384
Available-for-sale financial assets	644	644
Investments in subsidiary and associated undertakings	13 074	11 773
Current tax asset	-	3 596
Deferred tax asset	16 685	17 665
Other assets	34 550	31 268
Total	**8 681 826**	**8 497 003**

(in EUR thousands)	**2011**	**2010**
Credit risk related to off-balance sheet items:		
Contingent commitments from guarantees and letters of credit	484 319	471 519
Irrevocable loan commitments/stand-by facility	1 544 859	1 853 196
Revocable loan commitments/stand-by facility	1 001 542	679 468
Total	**3 030 720**	**3 004 183**

The table below shows a summary of the quality of the loan portfolio as at 31 December 2011 (balance sheet amounts):

(in EUR thousands)	Total carrying amount	Not impaired	Assessed on an individual basis - impaired	Specific provision	Portfolio provision	Net carrying amount	Claim value of received collateral
Loans and advances to banks	168 972	168 972	-	-	-	168 972	-
Loans and advances to customers	6 357 055	6 075 868	281 187	157 486	30 427	6 169 142	3 675 501
Public sector	*16 101*	*15 876*	*225*	*225*	*-*	*15 876*	*6 141*
Corporate clients	*3 629 022*	*3 428 028*	*200 994*	*98 437*	*23 575*	*3 507 010*	*1 669 757*
Retail clients	*2 711 932*	*2 631 964*	*79 968*	*58 824*	*6 852*	*2 646 256*	*1 999 603*
Total	**6 526 027**	**6 244 840**	**281 187**	**157 486**	**30 427**	**6 338 114**	**3 675 501**

The table below shows a summary of the quality of the loan portfolio as at 31 December 2010 (balance sheet amounts):

(in EUR thousands)	Total carrying amount	Not impaired	Assessed on an individual basis - impaired	Specific provision	Portfolio provision	Net carrying amount	Claim value of received collateral
Loans and advances to banks	530 486	530 486	-	-	-	530 486	-
Loans and advances to customers	5 769 270	5 490 111	279 159	163 692	39 649	5 565 929	3 641 321
Public sector	*17 011*	*16 910*	*101*	*101*	*-*	*16 910*	*7 959*
Corporate clients	*3 368 566*	*3 166 900*	*201 666*	*106 037*	*26 161*	*3 236 368*	*1 843 907*
Retail clients	*2 383 693*	*2 306 301*	*77 392*	*57 554*	*13 488*	*2 312 651*	*1 789 455*
Total	**6 299 756**	**6 020 597**	**279 159**	**163 692**	**39 649**	**6 096 415**	**3 641 321**

The table below shows a summary of the quality of the loan portfolio as at 31 December 2011 (off-balance sheet items):

(in EUR thousands)	Total carrying amount	Not impaired	Assessed on an individual basis - impaired	Specific provision	Portfolio provision	Net carrying amount	Claim value of received collateral
Contingent liabilities and other off-balance sheet liabilities to banks	49 327	49 327	-	-	-	49 327	-
Contingent liabilities and other off-balance sheet liabilities to clients	2 981 392	2 975 250	6 142	3 023	7 450	2 970 919	320 406
Public sector	*3 044*	*3 044*	*-*	*-*	*-*	*3 044*	*32*
Corporate clients	*2 401 738*	*2 395 602*	*6 136*	*3 022*	*7 450*	*2 391 266*	*235 369*
Retail clients	*576 610*	*576 604*	*6*	*1*	*-*	*576 609*	*85 005*
Total	**3 030 719**	**3 024 577**	**6 142**	**3 023**	**7 450**	**3 020 246**	**320 406**

The table below shows a summary of the quality of the loan portfolio as at 31 December 2010 (off-balance sheet items):

(in EUR thousands)	Total carrying amount	Not impaired	Assessed on an individual basis - impaired	Specific provision	Portfolio provision	Net carrying amount	Claim value of received collateral
Contingent liabilities and other off-balance sheet liabilities to banks	73 952	73 952	-	-	-	73 952	26 009
Contingent liabilities and other off-balance sheet liabilities to clients	2 930 230	2 921 791	8 439	3 447	7 485	2 919 298	467 277
Public sector	*20 832*	*20 832*	*-*	*-*	*-*	*20 832*	*2 586*
Corporate clients	*2 391 060*	*2 382 643*	*8 417*	*3 446*	*7 485*	*2 380 129*	*412 623*
Retail clients	*518 339*	*518 317*	*22*	*1*	*-*	*518 338*	*52 068*
Total	**3 004 183**	**2 995 743**	**8 439**	**3 447**	**7 485**	**2 993 251**	**493 286**

A summary of individual types of received collateral for financial assets (balance sheet amounts) at claim value is provided as follows:

(in EUR thousands)	2011	2010
Collateralisation of issued loans	**3 675 501**	**3 641 321**
Cash	73 775	44 028
Guarantees	141 276	583 459
Securities	59 907	56 519
Real estate	2 883 772	2 649 223
Movables	210 675	145 833
Receivables and other collateral	306 096	162 259
Collateralisation of receivables from derivative transactions	**4 190**	**4 415**
Cash	4 190	4 415
Total	**3 679 691**	**3 645 736**

A summary of individual types of received collateral for contingent liabilities and other off-balance sheet liabilities at claimable value is provided as follows:

(in EUR thousands)	2011	2010
To cover contingent liabilities and other off-balance sheet liabilities		
Cash	58 289	41 390
Guarantees	63 266	211 263
Securities	33 411	27 383
Real estate	78 962	122 897
Movables	9 722	26 366
Receivables and other collateral	76 756	63 987
Total	**320 406**	**493 286**

The summary below represents an analysis of the non-impaired loan portfolio by overdue days as at 31 December 2011:

(in EUR thousands)	Within maturity	Within 90 days	From 91 to 180 days	From 181 days up to 1 year	Over 1 year	Received collateral for overdue loans (in claim value)
Loans and advances to banks	168 972	-	-	-	-	-
Loans and advances to customers	5 953 236	102 876	8 058	5 091	6 607	68 745
Public sector	15 876	-	-	-	-	-
Corporate clients	3 343 801	84 049	177	1	-	43 792
Retail clients	2 593 559	18 827	7 881	5 090	6 607	24 953
Total	**6 122 208**	**102 876**	**8 058**	**5 091**	**6 607**	**68 745**

The summary below represents an analysis of the non-impaired loan portfolio by overdue days as at 31 December 2010:

(in EUR thousands)	Within maturity	Within 90 days	From 91 to 180 days	From 181 days up to 1 year	Over 1 year	Received collateral for overdue loans (in claim value)
Loans and advances to banks	530 486	-	-	-	-	-
Loans and advances to customers	5 320 725	139 994	19 102	7 307	2 983	65 588
Public sector	16 910	-	-	-	-	-
Corporate clients	3 122 462	44 437	1	-	-	28 147
Retail clients	2 181 353	95 557	19 101	7 307	2 983	37 441
Total	**5 851 211**	**139 994**	**19 102**	**7 307**	**2 983**	**65 588**

The following summary represents an analysis of the individually impaired loan portfolio as at 31 December 2011:

(in EUR thousands)	Public sector	Corporate clients	Retail clients	Total
Loans assessed on an individual basis – impaired	225	200 994	79 968	**281 187**
Specific provisions	225	98 437	58 824	**157 486**
Claim value of received collateral	-	61 211	25 178	**86 389**
% coverage by provisions for assets	100 %	49.0 %	73.6 %	**56.0 %**
% coverage by provisions for assets and received collaterals	100 %	79.4 %	105.0 %	**86.7 %**
Interest income from impaired loans	-	5 557	4 643	**10 200**

The following summary represents an analysis of the individually impaired loan portfolio as at 31 December 2010:

(in EUR thousands)	Public sector	Corporate clients	Retail clients	Total
Loans assessed on an individual basis – impaired	101	201 666	77 392	**279 159**
Specific provisions	101	106 037	57 554	**163 692**
Claim value of received collateral	-	68 980	59 467	**128 447**
% coverage by provisions for assets	100 %	52.6 %	74.4 %	**58.6 %**
% coverage by provisions for assets and received collaterals	100 %	86.8 %	151.2 %	**104.7 %**
Interest income from impaired loans	-	1 010	2 662	**3 672**

The summary below represents the quality of the loan portfolio that is non-impaired and non-overdue in accordance with the internal rating:

(in EUR thousands)	2011	2010
Loans and advances to banks:	**168 972**	**530 486**
A2 – Excellent credit rating	583	1 182
A3 – Very good credit rating	148 395	470 901
B1 - Good credit rating	7 605	19 412
B2 - Standard credit rating	5 985	25 989
B3 - Ordinary credit rating	2 034	10 064
B4 - Sub-standard credit rating	163	2 727
C – Doubtful/high risk of default	2 504	-
With no assigned rating	1 703	211
Loans and advances to customers:	**5 953 236**	**5 320 725**
Of which, public sector:	***15 876***	***16 910***
A3 - Very good credit rating	452	1 893
B1 - Good credit rating	70	922
B2 - Standard credit rating	1 102	697
B3 - Ordinary credit rating	6 413	5 372
B4 - Sub-standard credit rating	7 802	6 868
B5 - Significantly sub-standard credit rating	-	673
C – Doubtful/high risk of default	3	179
With no assigned rating	34	306

(in EUR thousands)	2011	2010
Of which, corporate clients without project financing:	***2 522 679***	***2 439 434***
0.5 – Minimum risk	12 758	6 458
1.0 - Excellent credit rating	74 029	53 526
1.5 - Very good credit rating	317 828	273 076
2.0 - Good credit rating	459 305	282 302
2.5 - Standard credit rating	363 069	374 148
3.0 - Ordinary credit rating	421 166	482 469
3.5 - Sub-standard credit rating	386 927	472 637
4.0 - Significantly sub-standard credit rating	395 251	397 832
4.5 – High probability of default	89 775	96 548
5.0 – Defaulted	1 129	18
With no assigned rating	1 442	420
Of which, corporate clients – project financing:	***821 122***	***683 028***
6.1 – Excellent project financing profile rating	215 706	168 915
6.2 - Good project financing profile rating	498 422	337 652
6.3 – Acceptable project financing profile rating	74 978	121 239
6.4 – Weak project financing profile rating	31 814	55 208
6.5 – Defaulted	202	14
Of which, retail clients	***2 593 559***	***2 181 353***
Total	**6 122 208**	**5 851 211**

The scoring system of the Parent Company's corporate clients (applied for the entire RBI Group) is based on the client's economic rating and complies with the rules of the Internal Rating Based Approach (IRB) as required by the Basel II. The rating range has 10 grades from 0.5 to 5.0, and 5 grades for project financing from 6.1 to 6.5.

The Parent Company provides real estate financing loans to corporate clients who have no assigned project financing rating. As at 31 December 2011, loan receivables from these clients that are not impaired or overdue, amount to EUR 136 572 thousand (31 December 2010: EUR 201 880 thousand).

Credit risk associated with the securities portfolio is low as the majority of purchased debt securities are government bonds issued by the Slovak Republic. In the case of exposure to corporate debt securities, which amount to EUR 15 809 thousand (2010: EUR 30 839 thousand), the risk category of the respective issuers is credit rating 1.5 – very good credit rating (31 December 2010: EUR 30 778 thousand). As at 31 December 2010, the remaining amount of corporate debt securities in the amount of EUR 61 thousand represented exposures to clients with a 3.5 rating - Sub-standard credit rating.

Credit risk from derivative transactions is also minimal as transactions are secured by a certain form of hedging (eg blockage of the client's financial funds etc).

The structure of the Group's credit risk exposure to the Slovak Republic (entities controlled by the Slovak Republic, guarantees issued by the Slovak Republic, and similar exposures) is as follows:

(in EUR thousands)	2011	2010
Deposits with the NBS	240 003	-
Zero coupon government bonds and other securities received by the NBS for refinancing	608 504	801 724
Loans and advances to banks	33 863	86 540
Loans and advances to customers	324 105	305 653
Debt securities	1 510 455	1 301 328
Total	**2 716 930**	**2 495 245**

The overall impact of the Slovak Republic on the Group's results of operations represented income of EUR 66 863 thousand (2010: EUR 66 991 thousand), which is mostly of an interest nature.

Restructuring

The Parent Company can modify repayment terms of its loan receivables if the client's financial position is weak and the client would be unable to repay, within a specified period of time, its liabilities to the Parent Company.

With overdraft loans, Agreement on Debt Instalments is concluded. This agreement cannot be extended, only transformed into an instalment credit after declaration of extraordinary maturity. In extraordinary circumstances, the overdraft loan can be extended but with the use of a gradual reduction.

In the case of instalment loans, repayment schedules are modified due to the client's inability to keep the agreed-upon deadlines. In the case of retail loans, there is an option to ask for loan restructuring in the form of a temporary decrease in the instalment amounts mostly for the period of 12 months with subsequent changes in the original loan (an extension of the loan's maturity, change in the instalment amount) so as to prevent the reduction of cash flows after the termination of the loan relationship (ie no impairment of receivables).

The carrying amount of retail receivables whose contractual repayment terms were modified in 2011 due to the client's default or deteriorated financial position amounted to EUR 24 037 thousand (2010: EUR 18 150 thousand). In the case of the corporate portfolio, the carrying amount was EUR 43 138 thousand (2010: EUR 46 473 thousand).

In 2011, the Parent Company turned into cash its pledges over movable and immovable assets received as collateral for its bad debt totalling EUR 10 534 thousand (2010: EUR 8 322 thousand).

Market risk

The Parent Company is exposed to market risks. Market risks result from open positions from transactions with interest rate, cross-currency, and equity products that are subject to general and specific market changes. To assess the approximate level of market risks associated with the Parent Company's positions, and the expected maximum amount of potential losses, the Parent Company uses internal reports and models for individual types of risks faced by the Parent Company. The Parent Company uses a system of limits, the aim of which is to ensure that the level of risks the Parent Company is exposed to at any time does not exceed the level of risks the Parent Company is willing and able to accept. These limits are monitored on a daily basis.

For risk management purposes, market risk is regarded as the risk of potential losses the Parent Company may incur due to unfavourable developments in market rates and prices. To manage market risks, the Parent Company uses a system of limits imposed on individual positions and portfolios.

As to the structure of trades, the Parent Company primarily faces the following market risks:
- Currency risk
- Interest rate risk

Market risks to which the Parent Company faces insignificant exposure:
- Equity price risk
- Commodity risk
- Currency risk

Currency risk represents the potential of loss resulting from unfavourable movements in foreign currency exchange rates. The Parent Company controls this risk by determining and monitoring open position limits.

Open currency positions are subject to real-time monitoring through the information system. The currency position of the Parent Company is monitored separately for each currency, as well as the group limit for specific currencies if monitoring is necessary, eg in the case of market turbulences. Limits for these positions are set in line with the RBI Group standards. Data on the Parent Company currency positions and on the compliance with the limits set by RBI are reported on a weekly basis.

In addition to the limit on an open currency position, the Parent Company also sets a negative gamma limit on an option position for each currency match subject to trading. The Parent Company also sets the vega limit on the overall option position.

Positions from client option trades to currency matches, where no gamma limit on trading has been specified by the Parent Company, are closed in the market, so as to ensure that the Parent Company has no open position for this currency match.

In addition, the Parent Company has set three various stop-loss limits for the overall foreign exchange position.

The Group's net foreign exchange (FX) position of assets, liabilities and equity as at 31 December 2011 and 2010 were as follows:

(in EUR thousands)	Net FX position 31 December 2011	Net FX position 31 December 2010
EUR	256 772	27 939
USD	(176 885)	(22 931)
Other (CZK, GBP, CHF, PNL, HUF and other)	(79 887)	(5 008)
Total net FX balance sheet position	**-**	**-**
EUR	(268 653)	(54 549)
USD	197 999	23 765
Other (CZK, GBP, CHF, PNL, HUF and other)	78 660	1 593
Total net FX off-balance sheet position	**8 006**	**(29 191)**
Total Net FX position	**8 006**	**(29 191)**

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The length of time for which the rate of interest is fixed on a financial instrument therefore indicates to what extent it is exposed to interest rate risk.

The Parent Company controls and manages its interest rate risk for all trades, and for the Banking Book, and the Trading Book separately. Interest rate risk is monitored and assessed on a daily basis.

To monitor interest rate risk, the Parent Company uses the gap analysis method (interest GAP), method of market value sensitivity to yield curve shift by defined number of basis points (basis point value – BPV), and three stop-loss limits to interest rate sensitive instruments.

Internal interest rate risk limits applicable in the Banking Book are set in the form of limits on open positions in each time band of the interest gap for each currency that is included in the Banking Book (mainly EUR, and USD).

The Parent Company's limit on the interest rate risk of the Banking Book is set in the form of limits on the sensitivity of the overall position to the yield curve shifts (BPV) in the Banking Book, with a limit on the position concentration in one time basket and one currency.

The interest rate risk limits applicable in the Trading Book are set in the form of limits related to the sensitivity of the overall position to yield curve shifts (BPV). The limits are set for individual currencies included in the Trading Book. The loss resulting from interest rate variations is limited to three stop-loss limits.

Integrated Risk Management regularly submits information on the actual amount of credit risk by individual currency and information on the use of the Banking Book's credit risk limits to the Assets and Liabilities Committee (ALCO).

In the case of exceeding the set limit, the interest rate positions are closed by using both traditional and derivative financial instruments.

The table below provides information in the carrying amount on the extent of the Group's interest rate exposure based either on the contractual maturity date of its financial instruments or, in the case of instruments that re-price to a market rate of interest before maturity, the next re-pricing date. Those assets and liabilities that do not have a contractual maturity date or are not interest-bearing are grouped in the "unspecified" category.

Interest rate gap of financial assets and liabilities as at 31 December 2011:

(in EUR thousands)	Up to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Unspecified	Total
Assets						
Cash and balances with central banks	273 866	-	-	-	75 421	349 287
Loans and advances to banks	165 608	818	-	-	2 546	168 972
Loans and advances to customers, net	3 375 455	1 078 119	1 469 327	65 732	180 509	6 169 142
Derivative financial assets	21 913	16 521	38 660	28 930	-	106 024
Held-for-trading financial assets	101 590	162 708	76 083	681	300	341 362
Financial assets at fair value through profit or loss	7 701	15 831	53 291	57 070	-	133 893
Held-to-maturity financial investments	157 402	256 984	1 109 374	173 720	-	1 697 480
Available-for-sale financial assets	-	-	-	-	644	644
Other assets	-	-	-	-	16 685	16 685
Interest rate position for financial assets as of 31 December 2011	**4 103 535**	**1 530 981**	**2 746 735**	**326 133**	**276 105**	**8 983 489**
Liabilities						
Deposits and advances from banks	60 250	418	397	40 000	349	101 414
Deposits from customers	2 062 244	2 775 570	2 052 545	2 014	40 494	6 932 867
Derivative financial liabilities	18 433	11 878	45 924	44 216	-	120 451
Liabilities from debt securities	186 608	200 384	348 297	18 023	-	753 312
Provisions for liabilities and charges	-	-	-	-	35 383	35 383
Other liabilities	-	-	-	-	45 434	45 434
Subordinated debt	120 423	-	-	-	-	120 423
Interest rate position for financial liabilities as of 31 December 2011	**2 447 958**	**2 988 250**	**2 447 163**	**104 253**	**121 660**	**8 109 284**
Net interest rate position as at 31 December 2011	**1 655 577**	**(1 457 269)**	**299 572**	**221 880**	**154 445**	**874 205**

Interest rate gap of financial assets and liabilities as at 31 December 2010:

(in EUR thousands)	Up to 3 months	From 3 months to 1 year	From 1 to 5 years	Over 5 years	Unspecified	Total
Assets						
Cash and balances with central banks	86 540	-	-	-	65 175	151 715
Loans and advances to banks	479 435	5 782	45 132	-	137	530 486
Loans and advances to customers, net	3 147 534	1 170 984	1 023 977	83 115	140 319	5 565 929
Derivative financial assets	12 474	27 163	52 320	15 372	-	107 329
Held-for-trading financial assets	84 706	56 040	102 053	32 715	470	275 984
Financial assets at fair value through profit or loss	4 326	90 335	58 152	59 132	-	211 945
Held-to-maturity financial investments	280 113	287 725	807 477	365 069	-	1 740 384
Available-for-sale financial assets	-	-	-	-	644	644
Other assets	-	-	-	-	31 268	31 268
Interest rate position for financial assets as of 31 December 2010	**4 095 128**	**1 638 029**	**2 089 111**	**555 403**	**238 013**	**8 615 684**
Liabilities						
Deposits and advances from banks	60 100	490	975	-	17	61 582
Deposits from customers	2 242 511	2 723 774	1 807 885	2 240	25 234	6 801 644
Derivative financial liabilities	8 281	16 048	62 182	39 664	-	126 175
Liabilities from debt securities	261 162	128 963	329 361	-	-	719 486
Provisions for liabilities and charges	-	-	-	-	38 687	38 687
Other liabilities	-	-	-	-	44 697	44 697
Subordinated debt	120 393	-	-	-	-	120 393
Interest rate position for financial liabilities as of 31 December 2010	**2 692 447**	**2 869 275**	**2 200 403**	**41 904**	**108 635**	**7 912 664**
Net interest rate position as at 31 December 2010	**1 402 681**	**(1 231 246)**	**(111 292)**	**513 499**	**129 378**	**703 020**

Equity price risk

Equity price risk arises from the Parent Company's exposure to changes in equity investment prices. Equity price risk is determined at the Parent Company level. Equity price risk is measured using individual exposures and by calculating and monitoring the overall equity investments position. Equity investments positions are reported on the level of the overall portfolio on a weekly basis.

Commodity risk

Commodity risk arises from the Parent Company's exposure to changes in commodity prices. Commodity risk is determined at the Parent Company level and is measured using positions in individual commodities. Sensitivity analysis is applied for the measurement and management of commodity risk.

Sensitivity analysis of market risks

Sensitivity analysis reflects the implications on the Parent Company's profit/loss arising from the movements in market parameters (interest rates, exchange rates, share prices etc.) by predetermined delta value. For monitoring and limiting of risk, the Parent Company uses 100 basis points for interest rates, a 5% movement in exchange rates, and 50% movement in share prices, and 30% movement in commodity prices.

GAP method assorts the Parent Company's positions into baskets and examines the Parent Company's final position in individual baskets. This method is used in interest rate risk management. The stress scenario is similar to the sensitivity analysis; however, it takes into consideration a marginal situation on the market. It combines movements in the market parameters so that these are the least favourable for the Parent Company.

The table below shows the Parent Company's sensitivity to movements in exchange rate, assuming negative movements in exchange rates by 5% to the detriment of the Parent Company.

Change in the present value of assets and liabilities of the Parent Company following the movements in exchange rates of the selected currencies to the detriment of the Parent Company as at 31 December 2011:

(in EUR thousands)	Present value of exchange rate	Exchange rate in sensitivity scenario	Parent Company's position in respective currency	Parent Company's loss in respective scenario
USD	1.294	1.359	21 115	(1 056)
CZK	25.787	24.498	(2 395)	(120)
HUF	314.580	330.309	102	(5)
PLN	4.458	4.681	928	(46)
RON	4.323	4.539	160	(8)
GBP	0.835	0.877	207	(10)
JPY	100.200	95.190	(201)	(10)
Total			**19 916**	**(1 255)**

Change in the present value of assets and liabilities of the Parent Company following the movements in exchange rates of the selected currencies to the detriment of the Parent Company as at 31 December 2010:

(in EUR thousands)	Present value of exchange rate	Exchange rate in sensitivity scenario	Parent Company's position in respective currency	Parent Company's loss in respective scenario
USD	1.336	1.403	836	(42)
CZK	25.061	23.808	(2 175)	(109)
HUF	277.950	264.053	(637)	(32)
PLN	3.975	4.174	559	(28)
RON	4.262	4.049	(1 585)	(79)
CHF	1.250	1.188	(1 552)	(78)
GBP	0.861	0.904	196	(10)
TRY	2.069	2.173	1 262	(63)
Total			**(3 096)**	**(441)**

The table below shows the Parent Company's sensitivity to movements in the interest rate assuming negative movement of the yield curve to the detriment of the Parent Company by 100 basis points.

Change in the present value of assets and liabilities of the Parent Company following the change in the interest rate for the selected currencies as at 31 December 2011:

(in EUR thousands)	Yield curve shift	Parent Company's loss from yield curve shift
EUR	100 BPV	(10 410)
USD	-100 BPV	(1 227)
Total		**(11 637)**

Change in the present value of assets and liabilities of the Parent Company following the change in the interest rate for the selected currencies as at 31 December 2010:

(in EUR thousands)	Yield curve shift	Parent Company's loss from yield curve shift
EUR	100 BPV	(14 154)
USD	-100 BPV	(565)
Total		**(14 719)**

As at 31 December 2011 and 31 December 2010, the Parent Company's exposure position in the Trading Book to equity price risk is insignificant. The Parent Company, therefore, does not recognise this exposure position to equity price risk.

In the Trading Book, the Parent Company has no commodity position; therefore, the change in the present value of assets and liabilities in the Parent Company's Trading Book following the change in commodity prices is also zero as at 31 December 2011 and 31 December 2010.

The Parent Company in the sensitivity analysis scenario uses the negative development of exchange rates, yield curves movements, and decrease in share prices. In the case of exactly opposite movements, the Parent Company would book profit instead of loss in approximately the same amount.

Liquidity risk

Liquidity risk is the risk that the Group may not be able to fulfil its obligation to settle its liabilities when they become due.

The Parent Company wishes to maintain its solvency, ie the ability to meet its financial liabilities in a proper manner and in time, and to manage its assets and liabilities so as to ensure continuous liquidity. Liquidity management is the responsibility of the Assets and Liabilities Committee (ALCO) and the Treasury Division. Meetings of ALCO are held on a regular basis, during which the Parent Company's liquidity is evaluated and, subsequently, decisions are made based on the current state of affairs.

The Parent Company is exposed to daily calls on its available cash resources from overnight deposits, current accounts, maturing deposits, loan draw downs, guarantees, and from margin and other calls on cash settled derivatives. The Group does not maintain cash resources to meet all of these needs as experience shows that a minimum level of reinvestment of maturing funds can be predicted with a high level of certainty. The Group sets limits on the minimum proportion of maturing funds available to meet such calls and on the minimum level of interbank and other borrowing facilities that should be in place to cover withdrawals at unexpected levels of demand.

The Integrated Risk Management function monitors the Parent Company's liquidity on a two-weekly basis and reports on its development. Information on the liquidity position is reported to ALCO weekly. The Asset and Liabilities Management function submits quarterly reports on the Parent Company's structure of assets and liabilities to ALCO for approval, and proposes the size and structure of the portfolio of securities held strategically for the following period subject to monitoring.

The Parent Company monitors short-, medium- and long-term liquidity risk by developing a liquidity and crisis liquidity gap (3 scenarios) based on internal rules and assumptions. The limits are approved by the Integrated Risk Management Department, ALCO, and the Parent Company's management. Furthermore, the Parent Company monitors the ratios determined by the NBS and the ratios and limits set by the parent company, RBI.

Deposits from customers are the primary funding source for the Parent Company. Although the terms of the majority of the deposits permit customers withdrawals with little or no advanced notice, the actual balances maintained by customers provide a stable source of funding.

The Group's liquidity position reflecting the existing residual maturity of assets and liabilities as at 31 December 2011:

(in EUR thousands)	Up to 12 months	Over 12 months	Unspecified	Total
Cash and balances in central banks	349 287	-	-	349 287
Loans and advances to banks	164 758	2 504	1 710	168 972
Loans and advances to customers, net	2 112 224	3 804 445	252 473	6 169 142
Derivative financial assets	38 123	67 901	-	106 024
Held-for-trading financial assets	214 358	126 704	300	341 362
Financial assets at fair value through profit or loss	23 532	110 361	-	133 893
Held-to-maturity financial assets	250 250	1 447 230	-	1 697 480
Available-for-sale financial investments	-	-	644	644
Investments in subsidiary and associate undertakings	-	-	13 074	13 074
Non-current intangible assets	-	-	41 060	41 060
Non-current tangible assets	-	-	80 839	80 839
Investment property	-	-	7 799	7 799
Deferred tax asset	-	-	16 685	16 685
Other assets	9 441	-	25 109	34 550
Total assets	**3 161 973**	**5 559 145**	**439 693**	**9 160 811**
Liabilities				
Deposits from banks	22 928	78 162	324	101 414
Deposits from customers [1)]	3 059 123	3 833 648	40 096	6 932 867
Derivative financial liabilities	30 311	90 140	-	120 451
Liabilities from debt securities	210 219	543 093	-	753 312
Provisions for liabilities and charges	-	-	35 383	35 383
Other liabilities	-	-	45 434	45 434
Subordinated debt	75 423	45 000	-	120 423
Total liabilities	**3 398 004**	**4 590 043**	**121 237**	**8 109 284**

(in EUR thousands)	Up to 12 months	Over 12 months	Unspecified	Total
Equity (excluding current year profit)	-	-	912 443	912 443
Profit after tax	-	-	139 084	139 084
Total equity and liabilities	**3 398 004**	**4 590 043**	**1 172 764**	**9 160 811**
Net balance sheet position	**(236 031)**	**969 102**	**(733 071)**	**-**
Net off-balance sheet position [2)]	**(2 566 624)**	**1 283**	**(1 182 499)**	**(3 747 840)**
Cumulative balance sheet and off-balance sheet position	**(2 802 655)**	**(1 832 270)**	**(3 747 840)**	**(3 747 840)**

1) Amounts for current accounts and savings books are recognised based on the estimated maturity model.

2) Off-balance sheet position includes receivables and liabilities from spot transactions and financial derivative transactions where the supporting instrument is replaced, in particular from future loans and borrowings, guarantees and letters of credit, and delta option equivalents.

The Group's liquidity position reflecting the existing residual maturity of assets and liabilities as at 31 December 2010:

(in EUR thousands)	Up to 12 months	Over 12 months	Unspecified	Total
Cash and balances in central banks	151 715	-	-	151 715
Loans and advances to banks	485 217	45 132	137	530 486
Loans and advances to customers, net	2 135 936	3 207 944	222 049	5 565 929
Derivative financial assets	39 637	67 692	-	107 329
Held-for-trading financial assets	119 117	156 397	470	275 984
Financial assets at fair value through profit or loss	79 724	132 221	-	211 945
Held-to-maturity financial assets	426 207	1 314 177	-	1 740 384
Available-for-sale financial investments	-	-	644	644
Investments in subsidiary and associate undertakings	-	-	11 773	11 773
Non-current intangible assets	-	-	39 911	39 911
Non-current tangible assets	-	-	63 823	63 823
Investment property	-	-	9 662	9 662
Current tax asset	-	-	3 596	3 596
Deferred tax asset	-	-	17 665	17 665
Other assets	6 103	-	25 165	31 268
Total assets	**3 443 656**	**4 923 563**	**394 895**	**8 762 114**

(in EUR thousands)	Up to 12 months	Over 12 months	Unspecified	Total
Liabilities				
Deposits from banks	21 008	40 557	17	61 582
Deposits from customers [1]	3 242 567	3 535 278	23 799	6 801 644
Derivative financial liabilities	24 329	101 846	-	126 175
Liabilities from debt securities	219 391	500 095	-	719 486
Provisions for liabilities and charges	-	-	38 687	38 687
Other liabilities	-	-	44 697	44 697
Subordinated debt	393	120 000	-	120 393
Total liabilities	**3 507 688**	**4 297 776**	**107 200**	**7 912 664**
Equity (excluding current year profit)	-	-	755 285	755 285
Profit after tax	-	-	94 165	94 165
Total equity and liabilities	**3 507 688**	**4 297 776**	**956 650**	**8 762 114**
Net balance sheet position	**(64 032)**	**625 787**	**(561 755)**	**-**
Net off-balance sheet position [2]	**(2 574 237)**	**(9 800)**	**56 766**	**(2 527 271)**
Cumulative balance sheet and off-balance sheet position	**(2 638 269)**	**(2 022 282)**	**(2 527 271)**	**(2 527 271)**

1) Amounts for current accounts and savings books are recognised based on the estimated maturity model.

2) Off-balance sheet position includes receivables and liabilities from spot transactions and financial derivative transactions where the supporting instrument is replaced, in particular from future loans and borrowings, guarantees and letters of credit, and delta option equivalents.

The summary below represents the analysis of the earliest possible contractual maturity of financial liabilities, ie the worst-case scenario, as at 31 December 2011 (in non-discounted values):

(in EUR thousands)	Carrying amount	Contractual cash flows	Residual maturity			
			Up to 3 months incl.	From 3 months up to 1 year incl.	From 1 year up to 5 years incl.	Over 5 years incl.
Non-derivative financial liabilities:						
Deposits from banks	101 414	111 215	16 649	7 686	39 589	47 291
Deposits from customers	6 932 867	6 985 943	5 582 455	660 227	737 902	5 359
Liabilities from debt securities	753 312	842 071	22 398	218 332	574 952	26 389
Other liabilities	45 434	45 434	45 434	-	-	-
Subordinated debt	120 423	126 097	1 000	77 626	47 471	-
Derivative financial liabilities:						
Trading derivatives	120 451	1 456 720	998 467	303 497	134 017	20 739

The summary below represents the worst-case scenario of the analysis of the contractual maturity of contingent liabilities and other off-balance sheet items as at 31 December 2011 (at non-discounted values):

(in EUR thousands)	Carrying amount	Contractual cash flows	Residual maturity			
			Up to 3 months incl.	From 3 months up to 1 year incl.	From 1 year up to 5 years incl.	Over 5 years incl.
Contingent liabilities and other off-balance sheet items:						
Contingent liabilities from guarantees	463 385	463 385	463 385	-	-	-
Contingent liabilities from letters of credit	20 934	20 934	20 934	-	-	-
From irrevocable loan commitments	1 544 859	1 544 859	1 544 859	-	-	-

The summary below represents the analysis of the earliest possible contractual maturity of financial liabilities, ie the worst-case scenario, as at 31 December 2010 (in non-discounted values):

(in EUR thousands)	Carrying amount	Contractual cash flows	Residual maturity			
			Up to 3 months incl.	From 3 months up to 1 year incl.	From 1 year up to 5 years incl.	Over 5 years incl.
Non-derivative financial liabilities:						
Deposits from banks	61 582	62 433	17 581	2 954	33 053	8 845
Deposits from customers	6 801 644	6 808 087	5 937 328	479 556	386 996	4 207
Liabilities from debt securities	719 486	768 074	4 052	228 108	535 914	-
Other liabilities	44 697	44 697	44 697	-	-	-
Subordinated debt	120 393	128 795	829	2 593	125 373	-
Derivative financial liabilities:						
Trading derivatives	125 637	1 122 685	575 684	372 269	139 967	34 765
Hedging derivatives	538	780	-	200	580	-

The summary below represents the worst-case scenario of the analysis of the contractual maturity of contingent liabilities and other off-balance sheet items as at 31 December 2010 (at non-discounted values):

(in EUR thousands)	Carrying amount	Contractual cash flows	Residual maturity			
			Up to 3 months incl.	From 3 months up to 1 year incl.	From 1 year up to 5 years incl.	Over 5 years incl.
Contingent liabilities and other off-balance sheet items:						
Contingent liabilities from guarantees	444 978	444 978	444 978	-	-	-
Contingent liabilities from letters of credit	26 541	26 541	26 541	-	-	-
From irrevocable loan commitments	1 853 196	1 853 196	1 853 196	-	-	-

Operational risk

Operational risk is the risk arising from inappropriate or erroneous procedures, human errors or failures of the Group's systems or from external events. Operational risk also includes legal risk, ie the risk of loss primarily due to the failure to enforce contracts, risk of unsuccessful legal disputes or court rulings with adverse impacts on the Group. As in the case of other types of risks, operational risk is managed by applying the standard principle including the separation of functions in risk management and controlling.

For the purposes of the capital requirement calculation to cover operational risk, the Parent Company uses the "Standardised Approach" according to BASEL II requirements and the Banking Act. Under the Standardised Approach, the Parent Company's activities and the related Gross Income are divided into eight business lines. Gross Income for each business line is represented by a general indicator serving as a representative for a range of business activities, thereby representing an operational risk rate for each business line. The capital to cover operational risk is calculated as net interest income and net interest-free income multiplied by an assigned ß factor for each business line separately. Total capital requirement equals the sum of eight partial requirements for each business line and the average for the past three years.

To identify operational risk, the Parent Company uses a three-dimensional model compound of risk categories, business functions, and business lines (Risk Management Association methodology). Operational risk loss data collection covers the collection of all operational losses by individual risk categories of this three-dimensional model.

The Parent Company puts the accent on process quality improvement and operational risk mitigation actions. The essential assumption of set goals is based on operational risk awareness and operational risk Parent Company culture.

The Parent Company also uses other tools to manage operational risk such as Key Risk Indicators and Self-Assessment of the operational risk, which are designated to identify, analyse and monitor areas with increased operational risk.

The Parent Company is also active in preparing Business Continuity plans. The plans aim to minimising impacts of unexpected events on the Parent Company's operation.

The next objective of the Parent Company is to implement an advanced operational risk management model.

Other risks

Simultaneously, in terms of implementing an internal process of capital adequacy determination, the Parent Company monitors and develops quantification and management methods aimed at other risks.

Basel II

The Parent Company rigorously meets the requirements of the European directives implementing the rules known as Basel II, while following in their implementation the local legislative standards, in particular amendment to Act No. 483/2001 Coll. on Banks and NBS Decree No. 4/2007 as amended by Decree No. 17/2008.

The concepts, methodology, and documentation for the activities in the Basel II Project are prepared in close co-operation with Raiffeisen Bank International AG while reflecting the local specifics of the Group and the entire bank environment.

The objective of the Basel II implementation is primarily to ensure the most accurate assessment and proper management of credit, market, and operation risks. The achievement of this objective is based on, among other things, the appropriate collection and archiving of all comprehensive data or potential comprehensive data, on the development of a reliable measurement methodology for individual types of risks, on the maintenance of effective and well-developed processes for the prudent management of individual types of risks, on the maintenance of quality and secure IT systems for the automation of processes, data collection, data analysis, calculations, and provision of outputs.

The Parent Company's intention is to implement the advanced approach to management, quantification, and reporting of individual risks as soon as possible. For credit risk, the Parent Company's objective is to implement the IRB approach based on the use of internal rating models. As at the reporting date, the general IRB approach for calculating the capital requirement for the non-retail portfolio and the advanced IRB approach for the retail portfolio was approved for the Parent Company.

The IRB approach has been used for sovereign units, institutions, corporate entities, project financing, insurance companies, fund investments, and purchased receivables since 1 January 2009 and since 1 April 2010 for the retail portfolio. For the SME portfolio, the authorisation process will take place in the near future. In connection with the approved IRB approach, the Parent Company continuously reassesses the performance of its rating models and subsequently ensures the required performance of the models.

The Parent Company continuously modifies and supplements its methodology and process procedures for Pillar 2 (internal process of capital adequacy assessment) in the context of its risk appetite and performed business activities. As part of this process, pursuant to the approved methodology, the Parent Company performs on a regular basis risk relevance and materiality assessment, risk quantification and assessment with respect to the Parent Company‘s capital and subsequent reporting. The process of capital allocation, which is closely linked with budgeting, forms an integral part.

Due to the transition to advanced approach risk and capital adequacy measurement (pursuant to Pillar 1 and Pillar 2) as well as the changes in the economic environment, a thorough prediction of capital adequacy developments and its stress testing are significant aspects for eliminating the effects of unforeseen events and for efficient capital planning. Information on the Group‘s individual risks and capital are reflected in the management of the Group and its business strategies to achieve an optimum compromise between mitigation of individual risk types and augmentation of the market share, profit and return on capital. Major changes introduced by the Parent Company with respect to the changing economic development included, for instance, implementing comprehensive stress testing for Pillar 1 risks as well as for other risk types identified by the Parent Company as material or partial optimisation of parameter estimates for the calculation of the own funds requirement for the retail portion of the portfolio. At the same time, the Parent Company actively uses the results of the stress testing in capital planning and capital management.

In connection with the upcoming new legislative standards known as Basel III, the Parent Company is actively preparing to start applying these stricter rules in the area of capital adequacy and liquidity in order to meet these standards without any difficulty and to maintain the required level of risk appetite, portfolio performance and return on capital.

47. Events after the Balance Sheet date

As of 1 January 2012, banks and branches of foreign banks in Slovakia are obliged to pay a special levy (the so-called bank tax). Banks and branches of foreign banks are obliged to pay the levy in the amount of one fourth of the annual rate (annual rate: 0.4%) of the amount of selected liabilities of the bank defined in line with Act No. 384/2011 Coll. on Special Levy of Selected Financial Institutions, Amending and Supplementing Certain Acts.

With effect from 2 February 2012, Raiffeisen CEE Region Holding GmbH, Vienna, Austria is now the Bank’s immediate parent company. Raiffeisen CEE Region Holding GmbH’s share in the Bank’s voting rights and share capital is equal to the share of the original immediate parent company, ie Raiffeisen Bank International AG.

Between the balance sheet date and the approval date of these financial statements, there were no such events that would require any adjustment or additional disclosure.

48. Approval of the consolidated financial statements

The annual consolidated financial statements for the immediately-preceding reporting period (as at 31 December 2010) were signed and authorised for issue on 7 March 2011.

The consolidated financial statements were signed and authorised for issue on 6 March 2012 by the following bodies/persons:

a) Statutory body

Igor Vida
Chairman of the Board of Directors
and CEO

Miroslav Uličný
Vice-Chairman of the Board of Directors
and Deputy CEO

b) Persons responsible for the bookkeeping and the preparation of the financial statements

Ľubica Jurkovičová
Accounting, Reporting
and Tax Director

TATRA BANKA

Member of Raiffeisen Bank International

Tatra banka, a.s.
Hodžovo námestie 3
81106 Bratislava 1
Slovak Republic

Phone.: +421-2-5919 1111
Fax: +421-2-5919 1110

SWIFT/BIC: TATRSKBX
www.tatrabanka.sk